# Downing Strategic Micro-Cap Investment Trust PLC

## Hunting value, enabling transformation

**Half-Yearly Financial Report**

31 August 2023

Downing

The investment objective of the Company is to generate capital growth for shareholders over the long term from active involvement in a focused portfolio of UK micro-cap companies (those whose market capitalisations are under £150 million at the time of investment) targeting a compound return of 15% per annum over the long term.

## Strategy

We are value investors who seek to achieve the investment objective by making investments in listed micro-cap companies. We believe that this universe offers attractive investment opportunities and is highly inefficient, which will aid the realisation of the return target. Additionally, the Investment Manager seeks 'strategic' involvement in their investee companies – a process through which they have proved to be effective at delivering returns in the past.

## Universe

- The Investment Manager considers the micro-cap universe to be companies with a market capitalisation of less than £150 million, at the time of investment.
- By definition, this comprises approximately 50% of UK listed companies.
- On average, there are fewer than three analysts covering any one of these companies, leading to pricing inefficiencies.
- The Investment Manager expects these inefficiencies to become greater due to regulatory change in the financial sector.

## Portfolio

- The Company's portfolio of investments typically comprises between 12 and 18 holdings.
- The Company typically seeks to hold between 3% and 25% of the equity of these investee companies, notwithstanding the ability to use debt instruments alongside equity.
- Typically, investments are appraised over a three to seven-year investment horizon.

## Process

- The Investment Manager's investment process is bottom up and value driven. This means that they focus on company fundamentals rather than macro-economic drivers, and that they aim to invest in line with value principles.
- Therefore, the Investment Manager focuses on cash generation and return on capital metrics.

## Strategic involvement

- The Investment Manager seeks to invest in companies which are materially undervalued and where there is scope for strategic involvement going forward.
- Strategic mechanisms typically include but are not limited to: providing funding for organic and inorganic growth; providing capital for restructuring operations; implementing incentive plans to align management over the long term; and rectifying sub-optimal corporate governance practices.

## Discount control

- In normal markets, as permitted, the board of the company manages share buybacks so as to contain within an acceptable range the extent of the Company's share price discount to the underlying net asset value ('NAV') per share.

# Contents

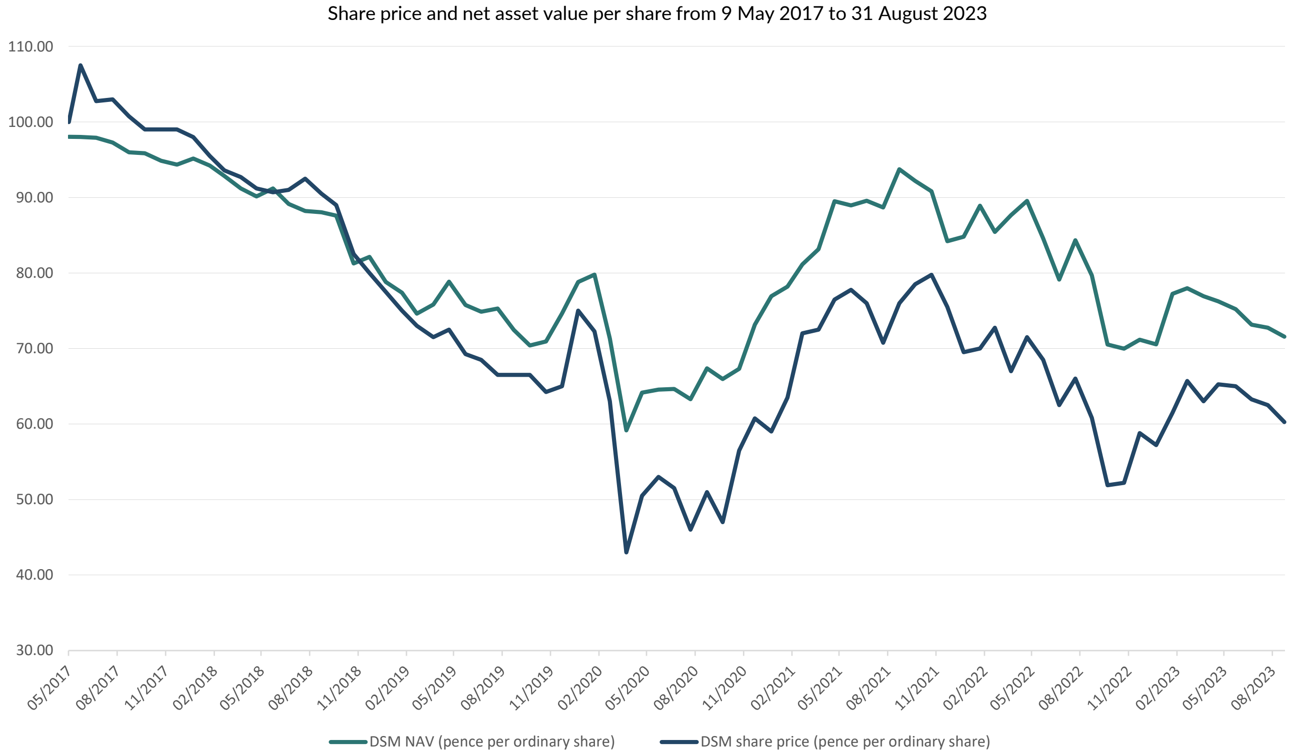


# Financial highlights

| Assets | (Unaudited) Six months ended 31 August 2023 | (Audited) Year ended 28 February 2023 | Change % |
|---|---|---|---|
| Net assets (£'000) | **33,939** | 38,355 | (11.51%) |
| Net asset value ('NAV') per Ordinary Share | **71.57p** | 77.99p | (8.23%) |
| Mid-market price per Ordinary Share | **60.25p** | 65.70p | (8.29%) |
| Discount | **15.81%** | 15.76% | |

| Revenue | (Unaudited) Six months ended 31 August 2023 | (Audited) Year ended 28 February 2023 |
|---|---|---|
| Revenue return per Ordinary Share | **0.17p** | (1.32p) |
| Capital return per Ordinary Share | **(7.07p)** | (6.22p) |
| Total return per Ordinary Share | **(6.90p)** | (7.54p) |

## Performance from 9 May 2017 to 31 August 2023




Source: Downing LLP

Ordinary shares admitted to trading on 9 May 2017 at 100p per ordinary share. Starting NAV of 98.04p per ordinary share.

Dividends paid have been ignored in the above chart.

# Operational highlights

The Company held positions in the following businesses:

| | |
|---|---|
| AdEPT Technology Group PLC (AdEPT) | National World PLC (National World) |
| Centaur Media PLC (Centaur) | Norman Broadbent PLC (Norman Broadbent) |
| Digitalbox PLC (Digitalbox) | OnTheMarket plc (OnTheMarket) |
| Equals Group PLC (Equals) | Ramsdens Holdings PLC (Ramsdens) |
| FireAngel Safety Technology Group PLC (Fireangel) | Real Good Food PLC (RGF) |
| Flowtech Fluidpower PLC (Flowtech) | Synectics PLC (Synectics) |
| Hargreaves Services PLC (Hargreaves) | Tactus Holdings Limited (Tactus) |
| Inspecs Group PLC (Inspecs) | TheWorks.co.uk PLC (TheWorks) |
| Journeo PLC (Journeo) | Volex PLC (Volex) |

## Highlights

- 8.2% decrease in NAV per share and 8.3% decrease in the share price, compared to a 12.8% decrease in the FTSE AIM All-Share TR index over the 6 months to 31 August 2023, driven by increasing negative sentiment towards UK smaller companies given the macro-economic headwinds.
- Catalysts to increase shareholder value across all holdings.
- Handful of companies recently refinanced, positioning them more strongly in a weaker market.
- Agreed bids for two portfolio companies.
- Board planning for an orderly wind up of the Company with an initial distribution of at least 20% of capital planned in early 2024.

# Chairman's Statement

### Overview

For most markets and investors, it has been a tiresome six months. For micro-caps it has been dispiriting for two or three years. Despite holding a promising portfolio, your board has taken a blunt decision to start the return of capital earlier in 2024 than originally anticipated and that is outlined later in this statement.

All relevant UK indices (FTSE All-Share, Small-Cap, and AIM) have declined. The S&P 500 has wandered through a small amount of uplift but faltered again. Valuations are relatively high in the leading market of the US but remain depressingly low in the glum markets of the UK. Investors and institutions seem to have lost direction and have retreated from even those equity markets that are cheap. Advisors do not know what to make of interest rates which, although not much different from the long-term historical trend, are now starkly different from recent bull years. The herd is confused. Even bonds have been uncertain and property prices challenged. Uncertainty has led investors to shelter in money markets for returns. The prospects of small caps and value have not featured at all – yet. Compared with a FTSE AIM All-share TR decline of 13% over the period, DSM's portfolio NAV declined by 8%, leading to a complementary share price decline of 8%. Given that our peer group has also lost market value in the period since DSM's last year end, it is barely an accolade to say that DSM has done marginally better than 'middle of the pack'. In truth, even good micro-cap stocks continue to be overlooked by markets, brokers, analysts, commentators, and investors. Trading has been thin. The story seems to be similar for much of the FTSE All-Share TR. Global drift, uncertainty, advisory fog and bouts of political dysfunction hardly help.

Meantime, DSM's portfolio of good companies presses on and the undervalue of that portfolio has just been illustrated by the agreed sale of OnTheMarket plc at 110p which is an uplift of almost 100% on its average share price over the previous 3 months and a 46% uplift on cost and now we have the agreed bid for FireAngel Safety Technology Group plc at a 46% uplift on the last funding round. Most of DSM's portfolio is performing well and more is ripe for M&A or rerating.

### Performance

A decline in DSM's NAV per share from 77.99p to 71.57p in the period reflects the continuing downbeat view of equity markets, particularly in the UK, with low multiples even on the valuations of DSM's portfolio companies, most of which are performing much as the managers expect and are adequately financed, either holding cash or in other ways able to sustain exposure to continued high interest rates (see the manager's typical in-depth report).

As to your company's shares, your board keeps a close eye on the discount. With modest buy-back activity, the discount remained around 15% to 17%. The share price reflected the NAV, declining from 65.7p to 60.25p in the period and the discount widened a little in recent market doldrums.

### Return of capital

Last year the board announced its intention to give shareholders the opportunity in May 2024 to opt for a subsequent return of 50% of their investment in the company. Since then, given the market's continuing undervaluation of both micro-cap stocks and small investment companies - demonstrated in part by the discount of your company's share price to NAV, the board has been considering what would be the best and fairest way to meet that commitment of returning capital to shareholders, realising best value for them equitably. It has concluded that it would advantage all shareholders equally and fairly to commence a managed wind down of the company's investment portfolio in an orderly manner. That will require shareholder approval which, along with further details, will be the subject of a circular shortly. It is expected that an initial return of capital equal to at least 20% of net assets can be delivered in early 2024 (subject to the two agreed bids noted above completing successfully) with further returns over a period of complete wind down. The board is consulting with its investment manager on the timescale for such a wind down, given current markets and the need to generate best value for shareholders who can see from the investment manager's report that disposals by acquisition have been at values well above carrying value. The managers have been most helpful and set out more detail on this proposal in their report.

Meantime, the board is consulting with its advisors on means to ensure that any return is of a capital nature and on fee structures. Further details on the timing and likely quantum of returns of capital will be announced once we have concluded those consultations.

Throughout the process your board will continue to support and encourage one of the most active, influential, and resourceful management teams in micro-cap investment. The sector remains in need of their level of involvement and of much greater market interest.

# Chairman's Statement (continued)

### Providing information to shareholders

I talk to the larger shareholders every six months. I am happy to correspond with others if they wish. We have a much-enhanced website. Shareholders can register for monthly news and notice of everything we and the managers say publicly. We continue to try to reach thousands of shareholdings held in nominee names via platforms. We are told that our efforts are more successful than most – even if the results are frankly modest.

### Governance

I set out what we do in the annual report. DSM has a very open and communicative board. In turn, we have high expectations of our investee company boards. We support our managers, who are plain speakers on that. Failings by boards are tiresome as well as economically damaging. A DSM principle is to be constructively determined in aiming for effective boards. The managers' report carries yet another successful example this time leading to a sale.

*Company Secretary and administration*

Our much-respected company secretary and head of admin, Grant Whitehouse, is planning his future retirement. We have appointed ISCA, run by two equally well-respected and ex-Sinclair Henderson (for those with long memories) investment company administrators and company secretaries.

*Wider issues*

We are resolutely intolerant of misstatements or misleading statements by investee boards, management, and their companies.

### Forward view

Political and economic dysfunction continues almost globally. The UK now lacks direction. Central bankers seem determined to retain the monetary brake, having pedalled in the opposite direction for years. We desperately need growth and the creation of economic and social values, but central banks and economic policy makers also need economic foundations of entrepreneurial new business, re-thinking of productivity, depth of technology, process, skill levels, determination, and education that will take far more than an electoral span to achieve. Short-term muddle and short-term, often ineffectual, initiatives will continue meantime. Corporate UK needs more drive, still more determined entrepreneurs, more investment in the future and, wherever possible, constructively challenging governance. DSM's managers press on all those fronts and DSM's portfolio remains a healthy portfolio for the future of a more determined UK.

### A longer-term optimistic view

Small companies are the seedbed of growth for the UK. Our institutions and our future well-being need that growth; desperately. The UK can punch way above its weight in a range of knowledge intensive, highly skilled industry and research. That is underrated in the application of national and institutional resources. Centrally the country has become so bound by departmental defensive statements that cold feet too often respond to opportunity and a confused 'establishment' fails to foster a culture of personal and local determination that drives growth. Was it Hayek who said all information is on the edges (meaning locally, where enterprise and people meet); the centre knows nothing? We are still a nation too much centrally governed. Nationally we drift through central caution, isolation and missed opportunity. Success demands determination (vide the USA over the last 150 years) not a country that is in a state something akin to administration (for those who recognise the Insolvency Acts) with decisions ruled centrally by the bank manager – HM Treasury struggling in a furrow largely of their own making over many years. I would suggest that over the last 75 years centrally bungled direction has now run its course. The 'private' governance of public money has not helped national wealth. Once that wealth was fired by drive and innovation well outside London – Birmingham, Manchester, Leeds, Newcastle, all long ago. Recently some future wealth creation has been born in places like Cambridge and a bit elsewhere round the UK. If the inward restriction of central thinking has truly run its course, as I believe it has, the time has come for the devolution of drive, energy, determination, funding, and the needs of national future growth to be allowed to be taken up by local enterprise and management and to be given much more equity funding by a greater risk-taking nation and its institutions. Some of the West Midlands, maybe Manchester, are seeking to do that.

# Chairman's Statement (continued)

### A longer-term optimistic view (continued)

Building a seedbed of knowledge, skill and determination probably takes a generation – far beyond the vision of politicians or government departments, but not beyond corporate drive and institutional investment. Pension funds will not service their liabilities with bonds alone, neither will the nation; they need thriving small and then growing enterprise.

Micro-Caps will have their day again – but in the longer term!

The Government has accepted the July UK Investment Research Review which means, if the industry has the will, access to research will be available to retail investors and there might be a research platform to help disseminate it. MIFID II amended, at last!

### Thanks

Thanks continue to DSM's determined managers, Judith MacKenzie and Nick Hawthorn, to Grant Whitehouse for many years of valued service, to my fellow board members, to shareholders with helpful views and to the Downing support team who have revamped our website (with board enthusiasm) and are helpfully constructive.

As we embark on our return of capital in these poor markets, shareholders might respect our managers' determined, active role in small companies. There is not enough of that in UK fund management. Judith MacKenzie is also the Chair of the Quoted Companies Alliance which provides excellent governance guidance for small companies in the UK. Thank you to Judith and Nick for their determination in difficult markets.

**Hugh Aldous**
Chairman
9 November 2023

# Investment Manager's Report

The NAV of the Company was down 8% per share versus the wider FTSE AIM-All Share TR index which was down nearly 13% (please note the Company does not have a benchmark). Meanwhile, the share price was down 8.3%, reflecting the continued diligence of the board and the buyback policy, which saw c.£1.1m of equity bought back in the period.

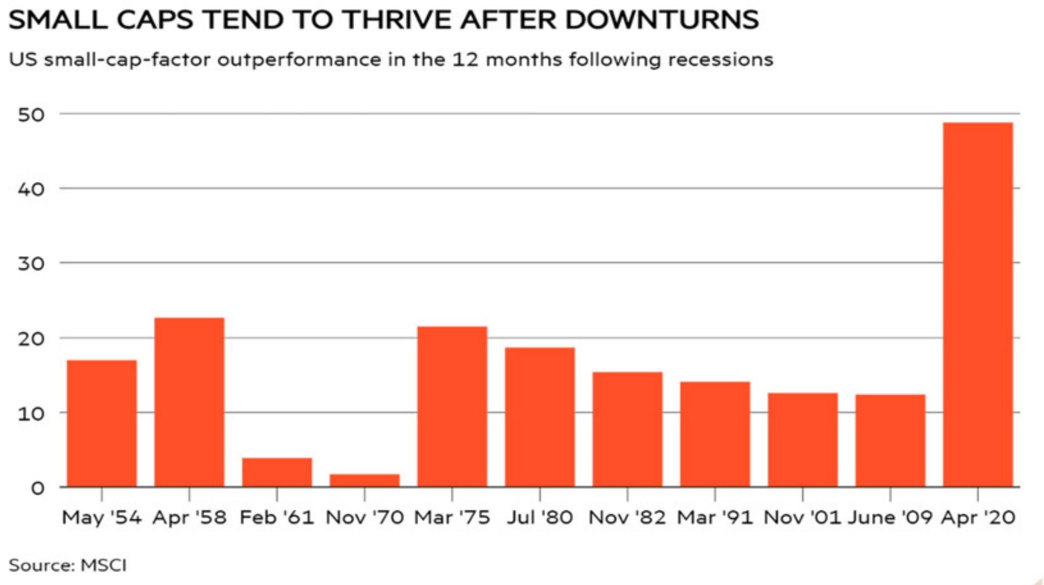
The decline and demise of the smaller companies' markets in the UK are now part of the daily narrative of the ecosystem. The facts are stark:

- The number of UK-listed companies has halved since 1997. New issues have fallen by 33%. 2022 was the worst year for new issues since 1980.
- The UK equity market has shrunk relative to GDP over the last 20 years. From 104% of GDP to 94%. Meanwhile, the US has increased from 101% to 156%.
- The reasons why this de-equitisation continues are multiple and complex, however, they point to one thing. There are more investors (institutional and private) selling small companies than buying them. This needs to change before sentiment towards small companies improves.
- The UK market is dominated by traditional sectors, with just 16% coming from companies that would be described as growth (vs 42% in the US).
- UK growth companies rely on non-UK investors for 60% of their funding (and more than 70% for deals larger than $100m).
- Pension fund allocation to UK companies is at the lowest level in history.

We believe that the reason for these depressing features includes:

- A disconnect between the value of companies in the UK versus the rest of the world due to perceptions of enhanced political and economic environment concerns compared to other markets. The UK is therefore a geopolitical risk. The way to mitigate this is to have UK pension funds invest in UK companies. The Mansion House reforms need impetus. We must revitalise the small end of the market – using enhanced tax incentives for private investors.
- Liquidity risk – the perception that lower market caps equal lower liquidity and therefore higher risk. This is fed by fear and regulation. Responsibility sits with both the FCA and relevant Exchanges – to make it easier for investors to invest, raise new funds, and make it cheaper to maintain a UK listing.

Market inefficiencies breed opportunity. They mean that investment companies like DSM can use strategic catalysts that counteract market malaise. Smaller companies tend to thrive after downturns (see below). The US has begun to take notice of the fact that small caps were trading at historically cheap valuations whilst EPS growth was trending upwards, and analysts' EPS forecasts had begun to improve. The Russell 2000 index rose by 14% from January to the summer months, and small caps outpaced larger peers at points during the summer. The change in sentiment towards smaller companies in the UK will happen at some point.



# Investment Manager's Report (continued)

### Our Portfolio

Our portfolio companies have already demonstrated that they are cheap and attractive to trade and private equity buyers. Our holdings are largely ungeared (or where there is gearing it is shareholder debt or asset backed), growing, and niche. Below, we cover the main attractors and detractors to performance in the six-month period to 31 August 2023.

**Main contributors**

**Volex plc** (*9.8% of NAV – contribution +2.6%, share price up 44% in period*) has returned to being the largest position in DSM following a strong share price performance, and due to the Company adding to its holding. There have been plenty of positive developments at the business which have driven a re-rating, and others which build the foundations for future growth.

Prior to the improvement in share price, the overhang on the share price was due to:

- Margins: the group reported operating margins in excess of 10% in the first half of FY21, and since then these had declined by c.100bps through FY22, troughing at 9% in H222 and H123. FY23 delivered an operating margin of 9.3%, but more notably that meant 9.6% in the second half of the year. We think this has alleviated margin concerns where the most bearish view was that, as a contract manufacturer, Volex was destined to see margins decline back to the low single digits where they began around 2017. This view took no account of the transformation of the group over the last few years. With the group now firmly recovering margin on an underlying basis and expected to sustainably generate over 10% operating margin following the acquisition of Murat Ticaret, we think this concern has diminished.
- Cash and debt: real free cash generation had been anaemic over the last few years, with healthy EBITDA and operating cash flows consumed by increasing cash interest and tax costs, working capital, and capex, as the business has generated growth in more capital-intensive opportunities. Also, through the requirement to fund inventory investment as supply chains remained stretched through Covid. Combined with acquisitions, net debt had increased materially over the last few years. If one viewed the business as highly economically sensitive/ cyclical, then it was probably at an uncomfortable level. The FY23 results showed net debt to EBITDA reduced to 1x, aided by a significantly improved net operating cash flow of $55.7m.
- Demand: despite good structural drivers, we had been concerned that demand could soften across some of the sectors, namely consumer and electric vehicles. Neither concern has played out. Admittedly, the consumer business did decline in H223, however, there is strong evidence of this business taking share and winning large new customers as the lowest-cost operating model shines through. Our concern over electric vehicles was based on monitoring the order backlog at one of Volex's largest customers. This backlog declined significantly through 2022 and has normalised at lower normal levels through 2023. However, Volex's EV segment remains very strong because of winning more new business and strong price inflation. The recent NACS coupler announcement – Volex stating that it is the licensed partner of Tesla for the North American Charging Standard EV Charging system – may generate further interest from new OEMs.

With a strong set of full-year results, Volex made further strategic progress through the proposed (now completed) acquisition of Murat Ticaret, the largest acquisition to date at €178m. This adds a fifth market segment to the group in the off-highway space. Like previous Turkish acquisition, DE-KA, Murat provides access to this market via a low-cost, vertically integrated operator at scale. Unlike DE-KA, Murat is primarily in high mix, low volume cable assemblies, similar to the wider Volex businesses. This drives highly accretive EBITDA margins of over 20% and should drive group margins north of 10% with a full year of earnings in FY25. While this acquisition adds scale and a new growth vertical, there remains significant untapped potential in leveraging Murat's capabilities into the substantial US off-highway market where Volex has previously been unable to compete on price. The acquisition at c.5x 2022 EBITDA was funded through debt and an equity raise of £60m, of which management contributed £15m. FY25 will be the first full year of Murat earnings, at which point the current share price will value the business on less than 11x P/E, which continues to significantly lag peers despite the structurally improving margin profile.

### Our Portfolio (continued)

**Journeo Plc** (5.8% *of NAV, contributing 1.62% to performance with share price up 37.8% in the period*). Journeo is a leading Intelligent Transport Systems provider, delivering solutions in towns, cities, airports, and the public transport networks that connect them. The company works extensively with local and combined authorities, Network Rail, and many of the largest multinational transport operators, supporting them as systems converge toward a more efficient and sustainable future.

Journeo has seen the benefit of the successful integration of its acquisition of InfoTec which DSM helped fund when we invested in January 2023. Since then, the company has announced 11 contract wins. These amount to £10.8m of purchase orders or contract wins, which help contribute to the £27m order book and £55m of sales pipeline which was announced in the interim results in September. There are several tailwinds for Journeo, many of which are not within the forecasts in the market. These include;

- Move to recurring SAAS revenue which will increase with the recent acquisition of MultiQ which has 70%+ recurring revenues. This should lead to a general re-rating as the quality of earnings improves.
- Further contract extensions including the next phase of the New York Subway contract (phase 1 was worth £15m over c.3 years). Extensions to other Frameworks including Arriva Bus.
- Macro tailwinds that are not in forecasts include infrastructure initiatives that are funded – including the Bus Service Improvement Plan (BSIP £1.2bn), Zebra (£220m) and of course the next phase in rail infrastructure spend which is CP7, which starts in April 2024. Journeo will benefit from these initiatives. None are accounted for in forecasts or pipeline numbers.
- Opportunities provided through acquisition. As we have seen through the acquisitions of InfoTec and MultiQ, Journeo's management team is prudent and will carefully manage the timing of acquisitions so as to not distract from organic growth. We expect that there will be further acquisitions in the coming 12 months, with a particular focus on rail.

We bought Journeo on a very modest PE of below 5x earnings, mainly due to the fact that the company had come through a turnaround and had to prove the acquisition of InfoTec. However, the management team has delivered, and interims reflect the transformation. The house analyst notes that Journeo looks compelling on an FY24E Adj P/E of 10.1x vs peers on 13.2x and reiterates their 1-year target of 338p (current 208p). They note that further upside could be seen if cash balances are deployed on additional acquisition opportunities leading to earnings accretion. We expect that there is upside in the forecasts through the macro tailwinds highlighted above.

**Equals Plc** (5.2*% of NAV, contributing 0.71% to performance over the period. Share price up 15.6%*). Equals is a fintech payments group focused on the Enterprise and SME marketplaces. We have enjoyed seeing the scalability and organic growth coming from this company. It is generating strong double-digit sales growth, 50%+ gross margins, and cash generation. Unlike many smaller companies, there is a degree of appreciation of this growth profile, and the share price has rewarded holders, albeit we believe that there is continued scope for this to be recognised further.

Interim results posted adjusted EBITDA and EPS coming in at £9.8m and 3.27p, respectively, on revenues up 43% to £45m – driven by standout transaction volumes from large/medium-sized clients. Gross margins improved to 52.4% from 47.4%. Cash at the end of June was £16.6m. The optimistic outlook allowed analysts to upgrade FY23 guidance helped by Equals announcing a maiden FY23 dividend of 1.5p.

### Our Portfolio (continued)

With technology growth companies, it is critical to see that growth comes with as capital lite model as possible – otherwise true cash generation can be stilted. Therefore, it was good to see that H1 software capitalisation was £2.4m, in line with amortisation costs of £2.5m, allowing adjusted EBIT margins (13%) are now in balance. The recent Oonex acquisition (rebranded Equals Money Europe) should allow it to provide the same essential offering that it does in the UK in Europe (this includes own name multicurrency IBANs and bank-grade connectivity).

We see the gap between value here and current share price continuing to widen as the earnings are upgraded. EPS is set to climb to 12.1p by 2026, providing 24% CAGR growth over the period (from 6.2p this year). We can see upside of c.70% to the current share price. Since the period end, Equals has put itself into play, announcing that it has embarked on a strategic review to potentially realise value through an exit.

**Main Detractors in the period**

**FireAngel Safety Technology Group PLC** (3.5% *of NAV. Detracted 4.1% from performance and saw share price fall by 61% in the period*). FireAngel, the provider and supplier of fire safety products in the UK and Europe, continued to disappoint as it ran out of cash runway to deploy its strategy. It is particularly disappointing given that previous management had committed to only raising additional cash on the back of funding exponential growth. This made the status quo challenging for shareholders to support and therefore a new Chair and CEO were appointed at the same time as the £6.1m fund raise, and a strategic review was launched. The new CEO and Chair are well known to us, having successfully exited a position in Universe Group Plc to private equity in 2021. It is encouraging that together, they have invested £500k in the placing.

This company has great macro tailwinds with regulatory influences in their markets. However, to date, FireAngel has failed to successfully monetise these. Therefore, the terms of the fundraise reflected the lack of delivery to date – an issue price of 5.05p, a discount of 25.2% to the pre-announcement share price. Subscribing shareholders getting one warrant for every three existing ordinary shares priced at 3p per share reflected the stress that FireAngel was under.

New management had a clear remit to realise value for shareholders through any means, including that of a sale of the business. It is therefore encouraging that FireAngel has received a bid from ISE/ Siterwell Electronics at 7.4p. This was a healthy premium of 225% to the prevailing share price at the time, albeit on a very depressed share price post a rescue fund raise. We are disappointed to see the company sold at this market capitalisation however the execution risk associated with this business means we are comfortable supporting the board's recommendations.

**Centaur Media Plc** (*7.5% of NAV, 3.0% detractor to performance, 26.9% fall in share price over the period*)
It is disappointing to see Centaur (the international provider of business intelligence, learning, and specialist consultancy) within the group of detractors to performance in the period, when in our view, management is delivering on earnings growth despite macro-headwinds in the sector. Although revenue reduced by 3% to £19.3m due to a fall in non-strategic advertising, adjusted EBITDA increased modestly to £3.5m from £3.4m thanks to careful cost management and a focus on profitable revenues.

Cash was strong, with 115% cash conversion delivering a balance sheet of £8.8m of net cash (the previous year was £14.2m), but this was after distributions to shareholders of £8m of ordinary and special dividends. We can understand why the market can take a blanket negative approach to valuing (or devaluing) certain sectors that may have macro-headwinds but here they are ignoring the quality of earnings, the self-help mechanisms that management has shown they are so able to enact, and the commitment to deliver adjusted EBITDA of over £10m on margins of 23% and beyond this full year.

### Our Portfolio (continued)

Looking forward, unlevered FCF of £5.4m equates to a yield of 10%, rising to 17% in FY24, making this a highly attractive value opportunity on well-underpinned profit forecasts. Here there is optionality, given that the board has delivered 16% of its market capitalisation back to shareholders over the last 12 months. The cash will either be used for accretive M&A (which we deem as unlikely), there is the likelihood of further shareholder capital returns, meanwhile, shareholders get a 3% dividend yield as they wait for a strategic initiative to close the gap between the share price and true tangible value of this quality asset.

**Flowtech Fluidpower plc** (*7.5% of NAV. Detracted 2.3% from performance and saw share price fall by 22.8% in the period*) had a profit warning in the period combined with a tweak to the strategic direction of the business. In some ways this was inevitable with a change of CEO and now the business is led by a through-and-through distributor with Mike England having come from Electrocomponents and prior to that Brammer and Hagemeyer/ Rexel. If anyone should know what good looks like for Flowtech, it ought to be Mike.

The new strategy will build on many of the foundations already put in place but will create a simpler and more cohesive customer proposition going forward. Distribution relies on delighting customers consistently and Flowtech stumbled through a reorganisation in the first half of the year which resulted in negative growth in the highest margin segment of the group. While we had no direct evidence of a reduction in customer confidence in previous periods, we had noticed some negative commentary around some of the reorganisation undertaken by management previously. In hindsight, this was probably already being reflected in some weaker than expected performance, which we unfortunately boiled down to a weaker market overall. The simpler operating model going forward, consolidated under a single brand, should return focus to the customer and the business can build from here on its already strong market position.

The other significant change introduced by Mike is to increase the size of the addressable market by moving into the power, motion, and control sector. This will triple the market size and provide the opportunity to accelerate growth from a low base. The e-commerce offering, while receiving a lot of attention, still lacks traction and is not as progressed as it should be. Once running properly, and with a refreshed sales and marketing effort, the opportunity to generate incremental cross-selling should begin to play through.

Overall, whilst it's disappointing that progress has been slow and, in some cases, negative, the strategic shift sounds sensible driven by an experienced distributor has significant merit and increases revenue and earnings potential for the future. We remain of the view that Flowtech can be a mid-teens EBITDA business if run correctly and that presents attractive upside over the coming years. Management will have to work hard to achieve the £13m expected EBITDA in 2024 but a prospective EV/ EBITDA of sub 6x and free cash flow yield well north of 10% provides sufficient reward if execution is flawless from here.

Strategic catalysts enacted through the period

- New NED appointment at Journeo PLC
- Improvement and commitment to Investor Relations at Synectics
- New management at FireAngel and Strategic Review started
- Board representation at Real Good Food
- Board monitoring at DigitalBox
- New NED appointment at Norman Broadbent
- Interviewed new CEO at Flowtech
- Discussed capital allocation with Chairman at OnTheMarket
- Various calls with National World management

We made small additions and follow-on investments into Volex, Tactus, and FireAngel, and we sold down some of our position in Hargreaves Services and Ramsdens.

# Investment Manager’s Report (continued)

### Future of the Company

As we highlight above, the negative sentiment towards UK small companies has continued in 2023. Value and micro-cap strategies have been equally out of favour and despite outperformance against the relevant indices over the last two years, DSM has struggled to attract any new investors with the company itself being largely the only acquiror of its shares.

Discounts of investment trusts are wider than the have been in the last 20 years and as wealth management investment trust buyers themselves consolidate, there is little interest in a small specialist investment trust like DSM.

This continuation of negative sentiment has coincided with a period of intense M&A activity in the portfolio with investments representing more than 20% of the net assets now under offer or in a strategic review process. Given the redemption option in May 24 and the negative sentiment to UK smaller companies the board and manager believe that it is in the best interests of shareholders to begin a phased and managed return of capital to shareholders. In order to achieve this, shareholders will be asked to approve the alteration of the Company's investment policy to a managed wind-down strategy. Pursuant to this strategy, it is the board's plan to return at least 20% of current net asset value in Q1 2024 (assuming the current offers for portfolio companies complete as expected). Thereafter it is intended that there will be regular distributions to shareholders as realisations permit, with a commitment to return cash as it reaches an appropriate level such that the cost of making distributions is not prohibitive. The manager believes that it is likely that further corporate activity in the portfolio that will enable this to be realised.

Inevitably, due to the nature of some of the investments, natural liquidity will be limited and hence there could be some time before a full and complete return of capital is made. Further details of this will be outlined in the coming weeks, however the manager has identified key catalysts within portfolio companies that point to an estimated intrinsic value of the portfolio, which if the divestments are carefully managed, would indicate an upside of at least 50% to current market cap. It is therefore the priority of the board and manager to realise this value and return capital to investors in the most efficient and effective way possible.

Further details on the proposed divestment plan, expected running costs, board composition, return of capital and revised management arrangements will be detailed by the end of the calendar year.

**Judith MacKenzie**
Head of Downing Fund Managers and Partner of Downing LLP
9 November 2023

# Investments

As at 31 August 2023

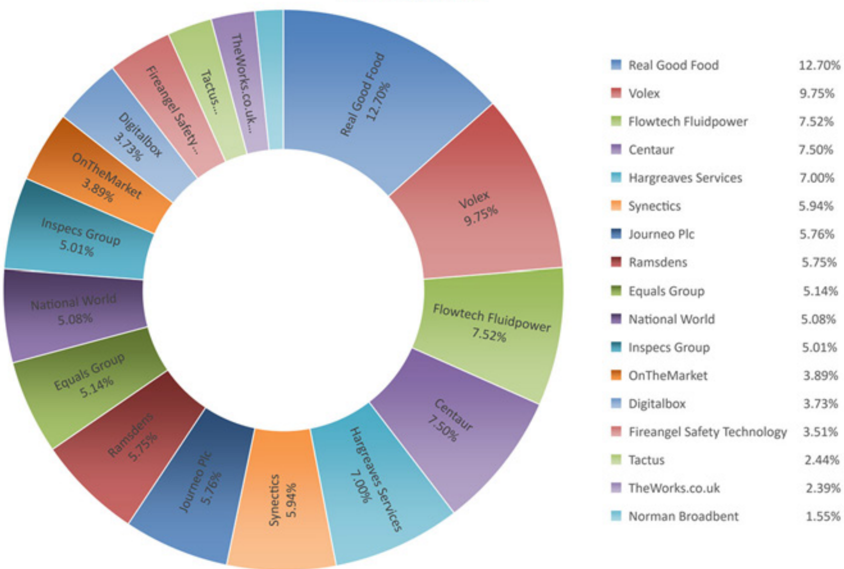
| | As at 31 August 2023 | | As at 28 Feb 2023 |
|---|---|---|---|
| | Market Value (£'000) | % of Total Assets | % of Total Assets |
| Volex plc | 3,309 | 9.75 | 4.09 |
| Flowtech Fluidpower plc | 2,552 | 7.52 | 8.53 |
| Centaur Media plc | 2,546 | 7.50 | 9.08 |
| Real Good Food 10% Loan Notes[1] | 2,528 | 7.45 | 6.59 |
| Hargreaves Services plc | 2,375 | 7.00 | 8.52 |
| Synectics plc | 2,017 | 5.94 | 6.26 |
| Journeo plc | 1,957 | 5.77 | 3.70 |
| Ramsdens Holdings plc | 1,952 | 5.75 | 6.57 |
| Equals Group plc | 1,746 | 5.15 | 3.90 |
| National World plc | 1,724 | 5.08 | 5.32 |
| Inspecs Group plc | 1,702 | 5.01 | 4.61 |
| Real Good Food 12% Loan Notes[1] | 1,420 | 4.18 | 3.70 |
| OnTheMarket plc | 1,319 | 3.89 | 3.77 |
| Digitalbox plc | 1,264 | 3.73 | 4.50 |
| FireAngel Safety Technology Group PLC | 1,191 | 3.51 | 4.96 |
| Tactus Holdings Limited[2] | 829 | 2.44 | 1.98 |
| TheWorks.co.uk plc | 812 | 2.39 | 2.26 |
| Norman Broadbent plc | 412 | 1.21 | 0.87 |
| Real Good Food 12% Secured Loan Notes[1] | 288 | 0.85 | - |
| Norman Broadbent 10% Loan Notes[1] | 114 | 0.34 | 0.56 |
| Real Good Food plc | 75 | 0.22 | 0.25 |
| Adept Technology Group plc | - | - | 6.24 |
| Total investments | **32,132** | **94.68** | **96.26** |
| Cash | 1,914 | 5.64 | 3.93 |
| Other net current assets | (107) | (0.32) | (0.19) |
| **Total assets** | **33,939** | **100.00** | **100.00** |

[1] Unquoted. Stated inclusive of the fair value of unpaid interest income.

[2] Unquoted equity.

All investments are in Ordinary Shares and traded on AIM unless indicated. As at 31 August 2023, DSM held investments in 17 companies (28 February 2023: 18). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 9. As at 31 August 2023, loan note principal represented 11.41% (28 February 2023: 9.64%) of total assets and the total of loan note principal and interest represented 12.82% (28 February 2023: 10.85%). The table above includes net current assets of £1,807,000 (28 February 2023: £1,428,000) that are also disclosed in the Statement of Financial Position.

**Portfolio Distribution**
As at 31 August 2023



# Background to the investments

(unless otherwise stated, all information provided as at 31 August 2023)

**Centaur Media PLC (Centaur) (7.50% of net assets)**

**Cost: £3.58m Value: £2.55m**

**Background**

Centaur Media is an international provider of business information, training and consultancy, creating value through premium content, analytics, and market insight within the Marketing and Legal segments. Centaur operates under several flagship brands, namely The Lawyer, MW Mini MBA, Influencer Intelligence, and Econsultancy, with the latter three brands forming part of their marketing arm, XEIM.


**Update to the investment case**

- Strong EBITDA margin performance and progress on strategy to drive profitable revenue growth
- Revenue down 3% primarily due to macroeconomic headwinds, however, earnings came in on plan due to efficient cost management
- Robust balance sheet at £8.8m following £8m paid in ordinary and special dividends
- An interim dividend of 0.6p which represented a 20% increase on the 2022 interim dividend
- Flagship 4 brands and higher quality revenue streams drove profitability

**Progress against investment case – See comment in the Investment Managers Report**

There is value in the Flagship 4 brands which management considers to be the key drivers of organic growth: Econsultancy, Influencer Intelligence, MW Mini MBA, and The Lawyer. The first stage in that value realisation is the group's Margin Acceleration Plan (MAP23) which aims to raise adjusted EBITDA margin growth to 23% and increase revenue to more than £45m by the end of 2023.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Digitalbox PLC (Digitalbox) (3.73% of net assets)**

**Cost: £1.13m Value: £1.26m**

**Background**
Digitalbox is a 'pure-play' digital media business with the aim of profitable publishing at scale on mobile platforms. The business generates revenue from the sale of advertising in and around the content it publishes. Its optimisation for mobile enables it to achieve revenues per session significantly ahead of market norms for publishers on mobile.

**Update to the investment case**

- Profit warning after significant downturn in audience numbers
- Strategic pivot required to return business to sustainable earnings

**Progress against investment case**
The group announced on 1 August 2023 that it had exchanged contracts to acquire the digital assets of 99 Problems, Student Problems, and The Life Network Shopping from Media Chain Group for a total consideration of $800,000. Media Chain houses 20+ social pages with over 60m followers. The transaction provides Digitalbox with the opportunity to extend its audience reach through the 99 Problems 10m Facebook followers, Student Problems 1.4m TikTok followers, and The Life Shopping Network’s 1m Facebook followers. The combined follower bases will more than double the number currently owned by Digitalbox, at approximately 8m Facebook followers. On 1 September, the group announced that it had completed the acquisition, with the final agreement resulting in the 99 Problems Instagram page and 90's Life Facebook page forming part of the acquisition, and Student Problems removed. It was completed at improved terms for a total of $600,000 in cash and is expected to be earnings enhancing as the engagement is built with the 20m followers the business now has within the social media channels.

The acquisition of some of the Media Chain should allow the group to significantly extend the audiences currently being served by the Digitalbox brands. With 99 Problems having started life as a social page called Student Problems, there are plenty of synergies to build around The Tab whilst there is very strong common ground between Entertainment Daily's audience and those who follow The Life Shopping Network.

Aside from this acquisition, the Company recently reported that earnings would be below expectations due to a sharp reduction in audience driven by algorithm changes from the social platforms. The business requires a strategic pivot to drive sustainable earnings and growth going forwards.

# Background to the investments (continued)

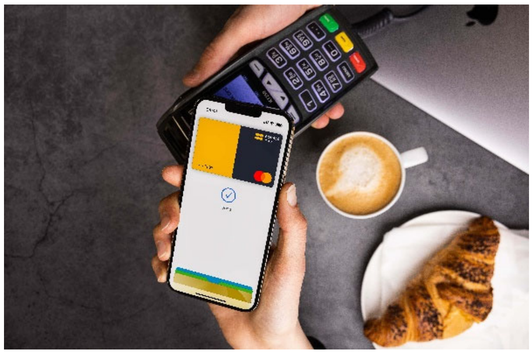
(unless otherwise stated, all information provided as at 31 August 2023)

**Equals Group PLC (Equals) (5.15% of net assets)**

**Cost: £1.19m Value: £1.75m**

**Background**

Equals is a technology-led international payments group augmented by highly personalised service for the payment needs of SMEs, whether these be FX, card payments or via Faster Payments. Founded in 2007, the group listed on AIM in 2014 and currently employs around 265 staff across sites in London and Chester.



**Update to the investment case**

- Continued significant revenue growth and record transaction values
- Record adjusted EBITDA
- Two acquisitions completed and integrated
- Strong balance sheet
- Intention to introduce maiden dividend for FY to 31 December 2023

**Progress against investment case – See additional detail in the Investment Managers Report**

Equals issued a very strong set of interim results and highlighted significant revenue growth, record adjusted EBITDA, and a strong balance sheet. The group reported record transaction values, with revenues up 43% to £45.0m. The gross profit margin increased to 52.4%, adjusted EBITDA more than doubled to £9.8m, and it held £19.9m in cash despite £2.9m spent on acquisitions. The group made two acquisitions in the period, Oonex (now Equals Money Europe) which provides access to the EU market, and Roqqet, an open banking platform. In an update on trading for the 49 trading days from 1 July to 8 September 2023, YTD revenue was 39% ahead of the same period the year prior, revenues per day increased to £370k from £265, and the robust pipeline in the Solutions business underpins further growth. The group also announced a proposed capital reduction to put the company in a position to pay dividends, with the board intending to pay a maiden dividend of 1.5p in respect of the financial year ending 31 December 2023.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**FireAngel Safety Technology Group PLC (FireAngel) (3.51% of net assets)**

**Cost: £6.54m Value: £1.2m**

**Background**
FireAngel designs, sells and markets smoke detectors, carbon monoxide detectors and home safety products under the FireAngel, FireAngel Pro, FireAngel Connect, AngelEye and SONA brands.

We were attracted to FireAngel because of its dominant share of the UK fire safety market, with products that are endorsed throughout Europe. We also saw an opportunity from changing legislation that we believe FireAngel will benefit from. Legislative guidance is for the purchase of smoke alarms with a 7– 10-year lifespan, and we are already beginning to see a replacement cycle on the installed base in more mature markets.

**Update to the investment case**

- Revenue and gross profit down
- Headwinds from adverse impact of unsuccessful currency hedge
- Inventory reduced
- New contract wins
- Senior team reinvigorated
- Strategic review introduced
- post period end the company has had an agreed approach at 7.6p per share (approximately 250% premium to share price) subject to shareholder approvals

**Progress against investment case – See additional detail in the Investment Managers Report**
FireAngel issued interim results for the period to 30 June 2023 and reported revenue down 16% to £21.4m, with UK revenue growth of 11% offset by a 63% decline in international revenue. Gross profit in the period was down 32% to £3.8m, and there was a loss of £4.0m before tax.

More positively, the group won new business contracts with Yale, British Gas Services, and a Middle East government agency, and delivery and production contracts were signed with Techem and a long-term manufacturing partner. Price rises were agreed with major customers. A strategic review commenced, and actions have been taken to reduce inventory and operating costs. The senior management team was refreshed, with the chairman replaced and three key appointments made. The business continues to face significant headwinds, but these are being addressed, the benefits of which are expected to result in improvements in 2024.

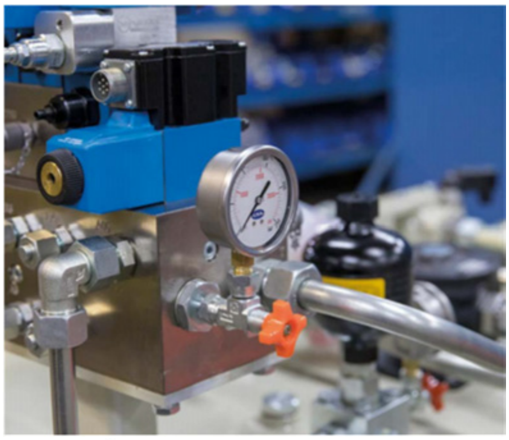
# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Flowtech Fluidpower PLC (Flowtech) (7.52% of net assets)**

**Cost: £2.60m Value: £2.55m**

**Background**
Flowtech is a value-added distributor of hydraulic and pneumatic consumables into a wide array of sectors predominantly in the UK and Ireland. The group is a leading UK player in this space, with pre - Covid revenues of over £110 million, and it sits between much larger global manufacturers and a highly fragmented and localised cohort of smaller distributors. The company's high service levels, broad stock offering, and exposure to maintenance, repair and overhaul markets were key attractions, and these attributes facilitate Flowtech's relatively high gross margins of over 35%.



**Update to the investment case**

- ▶ Revenue up by 2.8% with varying performance across segments
- ▶ Solutions and Service divisions operating well
- ▶ 5.7% revenue decline in Flowtech division
- ▶ Out-turn for FY23 expected to be significantly behind expectations
- ▶ Adverse market headwinds expected in HY2
- ▶ New CEO addressing issues head-on

**Progress against investment case – See additional detail in the Investment Managers Report**
The group issued a trading update and notice of interim results for the six months ended 30 June 2023 and reported that overall group revenue grew by 2.6%, with a mixed performance between the divisions. The Solutions and Services divisions continued to operate well, showing strong growth, however, the performance of the Flowtech division was disappointing, with a decline in revenue of 5.7%. Given the lower gross margins in the Solutions and Services divisions and the underperformance of the Flowtech division, group EBITDA in HY1 2023 is behind board expectations.

Actions to address the commercial and operational shortfalls adversely impacting performance in the Flowtech division are in progress, some of which require targeted new capital investment and some to address legacy issues. The HY1 growth and contribution from the Solutions and Services divisions have been more positive. However, adverse market headwinds are expected into HY2, and activity across the broader industrial markets is anticipated to slow. For these reasons, the board now expects the out-turn for FY23 to be significantly behind previous expectations.

Mike England took over as CEO in April and is focused on establishing a stronger platform for market share growth and improved margins in 2024 and beyond. He has introduced changes in managerial leadership and implemented a plan to further simplify the group's operating model which should improve the overall service and value proposition for customers and deliver greater efficiencies as the business scales. This also includes maintaining tight control of costs whilst making the right strategic investments for the future.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Hargreaves Services PLC (Hargreaves) (7.0% of net assets)**

**Cost: £1.82m Value: £2.37m**

**Background**

Hargreaves is a diversified group delivering key projects and services to the industrial and property sectors. The Distribution and Services division aims to generate sustainable profitability through operations across the energy and infrastructure sectors in the UK, Europe and Asia. The Property and Land division aims to generate value through the development and/ or disposal of the companies' significant land bank which includes planning for residential, logistics and industrial space.

**Update to the investment case**

- Strong renewable energy land asset valuation and realisation plan set out
- No update on releasing excess cash from the German JV
- Land and Services performed well and generated strong margins
- Shares remain exceptionally cheap

**Progress against investment case**

The group set out a strong value proposition and realisation case from its renewable's portfolio over the next five years in its full-year results announcement. The assets are held on the books at £6.6m and the realisation case set out is between £21.6m and £28.9m depending on the development and commissioning undertaken. We would be disappointed if realisations aren't made significantly ahead of the five-year target.

We were disappointed not to see further commitment to releasing more cash from Germany, particularly as commodity prices have retreated and this should mean that the commodity trading business requires less capital. We hope to receive further updates on this at the interims.

The operating segments – Land and Services – performed well in the period. The Services business in particular generated strong margins and has a good pipeline of work with the Sizewell and Lower Thames projects which will run beyond HS2.

With the shares trading around 450p and a net assets per share, which is also understated, of 618p per share, the shares remain exceptionally cheap. The catalysts to drive a re-rating will be centred around progress on the realisations and return of capital, and continued resilience in the operating companies.

### Inspecs Group PLC (Inspecs) (5.01% of net assets)

### Cost: £1.54m Value: £1.70m

**Background**
Inspecs is a vertically integrated designer, manufacturer, and distributor of eyewear and lenses. It owns its own brands, some of which are market-leading, and it also licenses brands and provides white-label options for others.

**Update to the investment case**

- Improved trading and cash generation performance
- Norville losses reduced substantially
- Net debt (excluding leases) reduced by £5m
- New Vietnam facility will significantly increase manufacturing capacity

INSPECS GROUP PLC

**Progress against investment case**

When we initiated our position in Inspecs earlier this year, we broadly expected that 2023 would be a recovery year as cost savings and improved demand played through. The group reported interim results for the period to 30 June 2023 and that it had made steady progress, characterised by improved trading and cash generation performance. Revenue increased by 6.1%, operating profit increased by 25.1%, gross profit margin increased to 51.4%, and net debt reduced from £27.6m to £22.7m. Operational highlights included the sale of 6.9m eyewear frames, compared to 6.2m in the same period the year prior. Revenue growth was strong in the UK and North America but was significantly higher in LATAM where it grew by 277%. Management remains focused on achieving operational efficiency gains and identifying integration opportunities. The construction of a new facility in Vietnam which is expected to be completed in H1 2024 will significantly increase the manufacturing capacity of the group.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

## Journeo PLC (Journeo) (5.76% of net assets)

**Cost: £1.13m Value: £1.96m**

**Background**

Journeo is a relatively new addition to the portfolio and the company provides solutions into the transport sector, including displays and passenger management. This is a sector that we are particularly enthusiastic about. The underinvestment in UK infrastructure, particularly transport, is well known and we as managers, have capitalised on this in other investments over the last decade.  The sector tends to be serviced by a number of niche/small companies and therefore a smart buy-and-build strategy can yield attractive returns if executed by a management team focused on return on investment.


**Update to the investment case**

- Set to benefit from long-term government spending trends in the transport sector
- Demonstrating the ability to generate strong organic and acquisitive growth
- Strong order book and sales pipeline
- Revenue for the FY expected to be significantly ahead of current market expectations

**Progress against investment case – please see Journeo discussed in the Investment Managers Report**

The business is set to benefit from long term government spending trends in the transport sector to help reduce emissions by improving the quality and quantity of public transport journeys. There are a number of multi-billion-pound government projects which Journeo is able to tap into to expedite the growth of the business.

The group issued a market update for the six months ended 30 June 2023 and provided further information on its trading expectations through to 2025. In the period, group revenues increased by 145% to £21.8m, which represented 41% organic growth in core business revenue and £9.3m revenue from Infotec. The sales order intake increased to £18m, including £4.2m from Infotec, which provides increased visibility into H2 2023 and beyond. The order book carried forward into H2 2023 was £27m and the sales opportunity pipeline was over £55m.

Revenue for the full year is expected to be significantly ahead of current market expectations, and profit before tax for the full year expected to be marginally ahead of current market expectations. This demonstrates Journeo's resilience and ability to maintain its performance despite the challenging macroeconomic environment.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**National World PLC (National World) (5.08% of net assets)**

**Cost: £2.92m Value: £1.72m**

**Background**

National World is a reverse into the regional publishing assets of the old Johnston Press, the third largest newspaper publisher in the UK. The business is highly cash generative and unencumbered by legacy assets typical of other large publishers. This leads to improved cash generation and that cash flow can be re-invested into content and a digital transition which will offer more opportunities for growth and higher margins.


**Update to the investment case**

- Acquisitions and product launches signal return to revenue growth
- Total revenue down 4%
- Digital revenue up 9%
- Strong balance sheet with cash balance of £22.1m
- Five acquisitions completed, boosting revenue expectations

**Progress against investment case**

The group issued a positive interim financial report and highlighted that continued investment in acquisitions and new product launches signals a return to revenue growth, despite the headwinds for the sector. Total revenue was down 4% over the period, however, there was some improvement in the second quarter with flat year-on-year performance, following an 8% decline in the first quarter. Digital revenues were up 9% to £8.9m, with average monthly page views of 141m, up 21% on the same period the year prior. Despite the downturn in the advertising market, video advertising held up well and continues to be an area of growth. Revenues were up 67% and total video views of 275 million represent a 49% year-on-year improvement.

The group delivered adjusted EBITDA of £3.1m, a decline of 47%, and adjusted operating profit of £2.9m. Contributing factors were the downturn in advertising and investment in new brands. The group accelerated plans to implement a new operating model, which will deliver £1.1m of savings in the second half, with c.£2.5m of annualised cost savings and restructuring costs of £0.9 million. However, the new model primarily focuses on sustaining National World's news brands in local markets by increasing reach and customer engagement. Investment in technology and platforms is well advanced and the first relaunches of fully automated and integrated print, online, and video brands is expected this quarter. The group completed five acquisitions in the period, paying a total consideration of £3.0m, (£1.9m consideration net of cash acquired) funded from its existing cash resources. Revenue of £2.0m and EBITDA contribution of £0.3 million were reported in the first half, with the bulk of this flowing from 1 May. For the full year, revenues of approximately £7.0m are expected with an EBITDA contribution of c.£1.0m.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Norman Broadbent PLC (Norman Broadbent) (equity, loan notes and interest, 1.55% of net assets)**
**Cost: £0.57m Value (including loan note interest): £0.53m**

**Background**

Norman Broadbent is less than 2% of DSM but Downing client funds now hold an influential stake of almost 20% of the equity. Norman Broadbent offers a bespoke mix of high-quality Search, Interim Management, Research & Insight, Assessment & Development solutions. A recognised but historically uninspiring brand, Norman Broadbent has market presence but had struggled to gain scale. However, it is profitable, modestly cash generative, and provides a platform for growth. After executing a turnaround in 2017 and a return to stability, Downing and other strategic shareholders recently refreshed the Chair and CEO positions, having identified a strong 'buy - in' team to take Norman Broadbent to the next level of organic and inorganic growth.

**Update to the investment case**

- Strong revenue growth and Net Fee Income
- Highly experienced management team with proven track record
- Repaid £0.2m convertible loan notes
- Net Fee Income up 58%
- Recent trading update reiterated ability to generate up to £1.5m of EBITDA by 2025, despite the macro headwinds of the recruitment sector

**Progress against investment case**

Norman Broadbent issued strong interim results, reporting revenue growth up 54% and underlying EBITDA of £0.27m up almost 400%. The group delivered its first profitable H1 since 2019, generating profit before tax of £8,000 compared with a loss of £72,000 for the same period the year prior. The group also paid down £0.2m of convertible loan notes during the reporting period, with the balance of £0.2m expected to be repaid before the second anniversary of issue. Operationally, Net Fee Income (NFI) increased by 58% to £5.2m, Executive Search NFI grew by 58% and Interim Management NFI was up 43%. The group has strengthened the business in all areas, with economies of scale and efficiency improvements beginning to benefit the bottom line. Having delivered a profit after tax for the first time since H1 2019, the substantial carried forward tax losses of over £14m begin to be of significant value as management expects to deliver sustainable and accelerated growth in the years ahead.

# Background to the investments (continued)

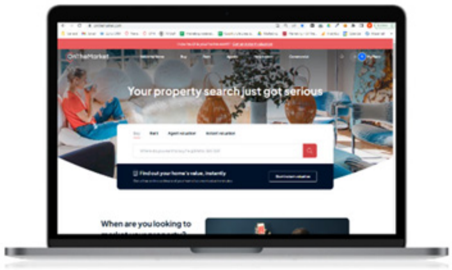
(unless otherwise stated, all information provided as at 31 August 2023)

**OnTheMarket PLC (OnTheMarket) (3.89% of net assets)**

**Cost: £1.87m Value: £1.32m**

**Background**

OnTheMarket is a majority agent owned and back property portal with around 60% share of UK agents. The new strategy will recycle the profits and cash generation from the undervalued portal into ancillary tech services to provide more value for agents and facilitate further wallet share.




**Update to the investment case**

- Record group revenues and profits
- Continued strategic progress
- Cash balance of £11.3 million provides operating flexibility and potential for capital returns
- OnTheMarket Software incurred a £1.5m impairment charge
- OnTheMarket was subject to a private equity bid post the results date, which requires shareholder approval but if voted for will provide shareholders with a 56% premium to the closing price and a 94% premium to the average share price of the previous 3 months

**Progress against investment case**

The group issued FY results for the year ended 31 January 2023 and reported record group revenues and continued strategic progress. Management reported a positive start to FY24 with current trading in the year-to-date in line with the board's expectations.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Ramsdens Holdings PLC (Ramsdens) (5.75% of net assets)**

**Cost: £1.33m Value: £1.95m**

**Background**

Ramsdens is a growing, diversified, financial services provider and retailer, operating in the four core business segments of foreign currency exchange, pawnbroking loans, precious metals buying and selling and retailing of second-hand and new jewellery. Ramsdens does not offer unsecured high-cost short-term credit. Headquartered in Middlesbrough, the group operates from over 158 stores within the UK (excluding 2 franchised stores) and has a growing online presence.


**Update to the investment case**

- Strong performance with positive trading momentum
- Revenue and gross profit significantly improved
- Quality management team
- Strong balance sheet conservatively managed
- Store estate expanded to 158 stores

**Progress against investment case**

Ramsdens announced its interim results and reported a strong performance, achieved by strong trading across all the group's key income streams. This momentum puts the business on course to deliver record profits in the current financial year. Profit before tax was up by 68% to £3.7m, gross revenue increased by 33% to £39.0m, and jewellery retail revenue increased by 32% to £17.3m. The pawnbroking loan book increased by 29% to £9.7m, and foreign currency gross profit increased by 41% to £4.9m. The group opened six new stores in the period, and it anticipates opening another six in the second half of FY23.

Management is focused on driving organic growth by delivering ongoing continuous improvements to its operations, expanding the store estate, and investing in the online offering. In addition, the board is continuing to seek and appraise attractive consolidation opportunities in what remains a highly fragmented market.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Real Good Food PLC (Real Good Food) (equity, loan notes and interest, 12.7% of net assets)**
**Cost: £5.45m Value (including loan note interest): £4.33m**

**Background**

Real Good Food is a food manufacturing business specialising in cake decoration (Renshaw and Rainbow Dust Colours) in the UK, USA and Europe.

**Update to the investment case**

- Macro-headwinds continue to impact the business
- Challenging conditions have shown some improvement
- Radical reform programme and new management team
- Reform program realised £8m of annualised cost savings for 2024 and beyond
- Loan extension provides a secure platform for rebuilding

Real Good Food plc

Cake Decoration • Food Ingredients • Premium Bakery

**Progress against investment case**

Real Good Food's full-year results for the year ended 31 March 2023 reported revenues fell by 19.8% to £32.5m as the macroeconomic headwinds punished the business. An EBITDA loss of £4.8m reflected the reduced gross margins and operating leverage, and the group posted a loss before tax of £9.0m. The business secured a £2.5m revolving credit facility and £0.55m in short-term shareholder loans which will support the group's radical reform programme. At the period end, total net debt had increased to £31.2m compared with £25.5m the year prior.

Volumes were about 26% lower year-on-year, with sales into the US and Europe significantly reduced – these were market-driven rather than customer losses. Key input costs continued to rise, and this was partially mitigated by increased prices to customers, but the limited availability of key ingredients also impacted performance. The impact of reduced volumes and the lag in passing cost increases on to customers reduced gross margins, however, these have begun to improve in the current trading period.

While market conditions remain challenging; there is evidence that volumes in some segments are beginning to rebuild, and the business is trading its way into a better place as the busier autumn season kicks in. A radical reform programme that has been implemented over the last year has been transformational and, with a management team in place, Real Good Food is well-positioned to make further gains, particularly in manufacturing efficiencies, sales, and customer focus. A loan extension will provide a more secure platform to continue the journey to sustainable and satisfactory profitability.

Following the release of a trading update by Real Good food plc on 31 October 2023, the board has reviewed the valuation of the Company's loan stock investment and revalued it to £2.6M (including interest and redemption premium). This valuation has been adopted by the Company in its daily NAV announcements with effect from 3 November 2023.

# Background to the investments (continued)
(unless otherwise stated, all information provided as at 31 August 2023)

**Synectics PLC (Synectics) (5.94% of net assets)**
**Cost: £3.98m Value: £2.02m**

**Background**
Synectics is a leader in the design, integration, and support of advanced security and surveillance systems. The group has deep industry experience across gaming, energy, urban transport, public space and critical infrastructure projects. Its expert engineering teams work in partnership with customers to create integrated product and technology platforms, proven in the most complex and demanding operating environments.

**Update to the investment case**
- Target markets are strong and recovering
- Latest financial results demonstrate significant turnaround in performance
- Strong order book
- FY results expected to be in line with market expectations

**Progress against investment case**

Synectics announced its interim results for the six months ended 31 May 2023 and highlighted that revenue was £21.9m, 14% ahead of the same period the year prior. Underlying operating profit increased by 61% to £0.8m and underlying profit before tax was up 62% to £0.7m. Strength in the oil & gas market underpinned the strong results, with growth in other markets more modest. The group has a strong order book at £28.4m and the board expects significantly improved trading in the second half of its financial year. Synectics operates in markets that are strong and recovering, and the company has solid long-term growth potential, from a sound platform. The group possesses excellent technology in thriving global markets, including oil & gas, gaming, and public safety, which are experiencing renewed growth. With a robust financial position and a clear strategic direction, future success will be delivered by the execution of that strategy.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

**Tactus Holdings Limited (Tactus) (2.44% of net assets)**
**Cost: £1.23m Value: £0.83m**

**Background**
Tactus is an unquoted UK business which supplies own- and third-party computer hardware, including laptops and notebooks and customised gaming PCs.

**Update to the investment case**

- Revenue behind budget due to consumer slow down
- Margins and earnings affected by destocking and sell through initiatives in H2
- Strong cash generation driven by inventory reductions


TG TACTUS GROUP

**Progress against investment case**
Tactus is strategically well-positioned to take share in the PC gaming market which is one of the fastest growing forms of entertainment globally. While the year saw consumer spending and margin headwinds which have impacted earnings, we expect that the normalisation of supply chains, reduced de-stocking activity and internal restructuring efforts should provide upside to earnings over the next 12 months. There is also untapped opportunity in the B2B market which has been underserved by the current model and which presents a good growth opportunity going forward.

# Background to the investments (continued)

(unless otherwise stated, all information provided as at 31 August 2023)

## TheWorks.co.uk PLC (TheWorks) (2.39% of net assets)
## Cost: £1.41m Value: £0.81m


TheWorks.co.uk

**Background**
TheWorks is one of the UK's leading multi-channel value retailers of arts and crafts, stationery, toys, and books, offering customers a differentiated proposition as a value alternative to full-price specialist retailers. The group operates a network of over 500 stores in the UK & Ireland and an online store.

**Update to the investment case**

- Resilient performance in line with revised expectations
- Total revenue increased
- Business rates cost increased as Covid reliefs ended
- Strong balance sheet
- Improved store estate

**Progress against investment case**
TheWorks issued results and a trading update on 30 August 2023 which showed the group delivered a resilient performance in FY23, despite the challenging backdrop. Revenue increased by 5.8% to £280.1m, driven by its strong portfolio of stores and bolstered by the sector-wide shift of customers returning to shop in-store post-Covid. Store sales strengthened as the year progressed, delivering a LFL increase of 7.5%, however, online sales declined resulting in overall LFL sales growth of 4.2%. Product gross margin declined by 170bps due to strategic change in sales mix (increased weighting of front-list books) and higher freight costs, and business rates costs increased by £5.8m as Covid reliefs ended. Although inflationary pressures increased business costs and dampened consumer confidence, TheWorks ended the year in line with its rebased expectations. The group remains in a strong financial position at the end of FY23, with net bank balances of £10.2m (FY22: £16.3m, including higher than usual creditor balances).

# Background to the investments (continued)
(unless otherwise stated, all information provided as at 31 August 2023)

**Volex PLC (Volex) (9.75% of net assets)**
**Cost: £1.67m Value: £3.31m**

Volex

**Background**
Volex manufactures complex cable assemblies and power cords through a global manufacturing base for a wide variety of industries. Following a turnaround and portfolio repositioning, the business has shifted away from lower margin, commodity products and has been growing sales in high structural growth sectors such as electric vehicles and data centres.

**Update to the investment case**
- Strong group revenue growth driven by strong organic growth and acquisitions
- Effective management of inflation and cost control
- Significant progress made towards five-year growth plan
- Investment in increasing capacity across India, Mexico, Poland and Indonesia

**Progress against investment case – See additional detail in the Investment Managers Report**
With a strong set of full-year results, Volex made further strategic progress through the proposed (now completed) acquisition of Murat Ticaret, the largest acquisition to date at €178 million. This adds a fifth market segment to the group in the off-highway space. Like previous Turkish acquisition, DE-KA, Murat provides access to this market via a low-cost, vertically integrated operator at scale. Unlike DE-KA, Murat is primarily in high mix, low volume cable assemblies, similar to the wider Volex businesses. This drives highly accretive EBITDA margins of over 20% and should drive group operating margins north of 10% with a full year of earnings in FY25. While this acquisition adds scale and a new growth vertical, there remains significant untapped potential in leveraging Murat's capabilities into the substantial US off-highway market where Volex has previously been unable to compete on price. The acquisition at c.5x 2022 EBITDA was funded through debt and an equity raise of £60m, of which management contributed £15m. FY25 will be the first full year of Murat earnings, at which point the current share price will value the business on less than 11x P/E, which continues to significantly lag peers despite the structurally improving margin profile.

# Our expectations of the investee companies

When we invest in companies we expect, in return, rigorous and effective corporate governance; directors who understand their duties and who are familiar with the General Duties section of the Companies Act 2006 and the UK Corporate Governance Code from the Financial Reporting Council.

- **Directors' responsibilities:** in our view, directors' responsibilities are demanding. They stand accountable for the culture, foresight and success of the company, to which they should apply the best of their knowledge and ability to enquire and act in the interests of the company as a whole for its current and future shareholders. A company's success depends on investment in its long-term, sustainable advantage as well as its financial strength and profitability. A company's return on investment underpins its shareholders' returns.

- **Constructive challenge:** we look for alert, questioning, competent boards that constructively challenge management, help develop strategy and long-term objectives, monitor performance, ensure the build-up of necessary assets, skills and capable management and lead in setting a culture of integrity. We will take action if we do not find that level of competence.

In particular, we would expect to find:

- **Leadership:** every investee company should be headed by an independent Chairman leading an effective, questioning, challenging board that sees itself as collectively responsible for the long-term success of the company. We will encourage that if it is missing. We will seek to take appropriate action if we do not think the Chairman is up to the job.

- **Effectiveness:** the board and its committees should be engaged with the business and have the skills, experience, independence and knowledge to enable them to challenge constructively and fully undertake their duties. It should be clear to investors why each director is on the board, what skills and contribution that director is there to provide, and all directors and senior management should regularly update and refresh their skills and knowledge. There should be a rigorous process for the appointment of new directors.

- **The Chairman:** should lead the board, create the conditions for overall board and individual director effectiveness, ensure that the board gets information in a form and of a quality sufficient to discharge its duties and should undertake a formal annual evaluation of the board and each director's performance.

- **Accountability:** We expect all directors to appreciate that accountability for culture, integrity, the 'tone from the top', the creation of value, of corporate and shareholder value, and the company's success lies with them.

- **ESG:** We expect our investee companies to be familiar with the QCA's work on Corporate Governance and with their ESG Guide.

It is with those expectations of the boards of directors that we invest.

# Interim Financial Statements

## Condensed Statement of Profit or Loss and Other Comprehensive Income

for the six months ended 31 August 2023

| | **(Unaudited) Six months ended 31 August 2023** | | | (Unaudited) Six months ended 31 August 2022 | | | (Audited) Year ended 28 February 2023 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Revenue £'000** | **Capital £'000** | **Total £'000** | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| (Losses)/gains on investments at fair value through profit or loss (**note 7**) | - | **(3,225)** | **(3,225)** | - | (2,935) | (2,935) | - | (2,774) | (2,774) |
| Investment income (**note 3**) | **415** | - | **415** | 484 | - | 484 | 1,088 | - | 1088 |
| | **415** | **(3,225)** | **(2,810)** | 484 | (2,935) | (2,451) | 1,088 | (2,774) | (1,686) |
| Investment management fee (**note 4**) | **(31)** | **(123)** | **(154)** | (33) | (132) | (165) | (62) | (247) | (309) |
| Impairment expense | - | - | - | - | - | - | (1,196) | - | (1,196) |
| Other expenses | **(303)** | **(29)** | **(332)** | (215) | - | (215) | (483) | (61) | (544) |
| | **(334)** | **(152)** | **(486)** | (248) | (132) | (380) | (1,741) | (308) | (2,049) |
| Profit/(loss) before taxation | **81** | **(3,377)** | **(3,296)** | 236 | (3,067) | (2,831) | (653) | (3,082) | (3,735) |
| Taxation | - | - | - | - | - | - | - | - | - |
| Profit/(loss) for the period | **81** | **(3,377)** | **(3,296)** | 236 | (3,067) | (2,831) | (653) | (3,082) | (3,735) |
| | **Revenue (p)** | **Capital (p)** | **Total (p)** | Revenue (p) | Capital (p) | Total (p) | Revenue (p) | Capital (p) | Total (p) |
| Earnings/(loss) per Ordinary Share (**note 5**) | **0.17** | **(7.07)** | **(6.90)** | 0.47 | (6.17) | (5.70) | (1.32) | (6.22) | (7.54) |

The total column of this statement represents the Statement of Comprehensive Income of the company prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

The supplementary revenue and capital return columns are prepared under guidance published by the Association of Investment Companies ('AIC').

The profit/(loss) for the period disclosed above represents the company's total comprehensive income. The company does not have any other comprehensive income.

All items in the above statement are those of a single entity and derive from continuing operations. No operations were acquired or discontinued during the period.

## Condensed Statement of Changes in Equity
for the six months ended 31 August 2023

| | Note | Share capital £'000 | Capital redemption reserve £'000 | Special reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 28 February 2023 (Audited)** | | | | | | | |
| At 28 February 2022 | | 56 | - | 54,474 | (12,126) | 655 | 43,059 |
| Profit for the year | | – | - | – | (3,082) | (653) | (3,735) |
| Buyback of Ordinary Shares into treasury | | – | - | – | (812) | – | (812) |
| Transfers between reserves | | – | - | – | – | – | – |
| Cancellation of treasury | | (4) | 4 | | - | – | – |
| Expenses for share buybacks | | – | - | – | (8) | – | (8) |
| Dividends paid (note 8) | | – | - | – | – | (149) | (149) |
| **As at 28 February 2023** | | 52 | 4 | 54,474 | (16,028) | (147) | 38,355 |

| | Note | Share capital £'000 | Capital redemption reserve £'000 | Special reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Six months ended 31 August 2023 (Unaudited)** | | | | | | | |
| At 28 February 2023 | | **52** | **4** | **54,474** | **(16,028)** | **(147)** | **38,355** |
| Profit for the period | | **–** | **–** | **–** | **(3,377)** | **81** | **(3,296)** |
| Buyback of Ordinary Shares into treasury | | **–** | **–** | **–** | **(1,107)** | **–** | **(1,107)** |
| Expenses for share buybacks | | **–** | **–** | **–** | **(13)** | **–** | **(13)** |
| Dividends paid | **10** | **–** | **–** | **–** | **–** | **–** | **–** |
| **As at 31 August 2022** | | **52** | **4** | **54,474** | **(20,525)** | **(66)** | **33,939** |

## Condensed Statement of Financial Position
as at 31 August 2023

| | Note | (Unaudited) 31 August 2023 £'000 | (Unaudited) 31 August 2022 £'000 | (Audited) 28 February 2023 £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investments held at fair value through profit or loss | **7,8** | **32,132** | 34,503 | 36,927 |
| | | **32,132** | 34,503 | 36,927 |
| **Current assets** | | | | |
| Trade and other receivables | | **10** | 15 | 88 |
| Cash and cash equivalents | | **1,914** | 5,007 | 1,505 |
| | | **1,924** | 5,022 | 1,593 |
| **Total assets** | | **34,056** | 39,525 | 38,520 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(117)** | (65) | (165) |
| | | **(117)** | (65) | (165) |
| **Total assets less current liabilities** | | **33,939** | 39,460 | 38,355 |
| **Net Assets** | | **33,939** | 39,460 | 38,355 |
| **Represented by:** | | | | |
| Share capital | | **52** | 56 | 52 |
| Capital redemption reserve | | **4** | - | 4 |
| Special reserve | | **54,474** | 54,474 | 54,474 |
| Capital reserve | | **(20,525)** | (15,812) | (16,028) |
| Revenue reserve | | **(66)** | 742 | (147) |
| **Equity shareholders' funds** | | **33,939** | 39,460 | 38,355 |
| Net asset value per Ordinary Share | **6** | **71.57p** | 79.68p | 77.99p |

**Hugh Aldous**
Chairman
Downing Strategic Micro-Cap Investment Trust PLC
Registered in England and Wales, no. 10626295

## Condensed Statement of Cash Flows
for the six months ended 31 August 2023

| | Notes | (Unaudited) Six months ended 31 August 2023 £'000 | (Unaudited) Six months ended 31 August 2022 £'000 | (Audited) Year ended 28 February 2023 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| (Loss)/return before taxation | | **(3,296)** | (2,831) | (3,735) |
| Losses on investments at fair value through profit or loss | 7 | **3,225** | 2,935 | 2,774 |
| UK fixed interest income | | **(22)** | (340) | (380) |
| Receipt of UK fixed interest income | | **11** | - | - |
| Impairment expense | | - | - | 1,196 |
| Decrease/(increase) in other receivables | | **78** | 45 | (28) |
| (Decrease) in other payables | | **(47)** | (175) | (75) |
| Purchases of investments | | **(2,759)** | (1,926) | (6,321) |
| Sales of investments | | **4,340** | 4,269 | 5,244 |
| **Net cash inflow from operating activities** | | **1,530** | 1,977 | (1,325) |
| **Financing activities** | | | | |
| Buyback of Ordinary shares into treasury | | **(1,107)** | (615) | (812) |
| Expenses of for share buybacks | | **(14)** | (4) | (7) |
| Dividends paid | | - | (149) | (149) |
| **Net cash outflow from financing activities** | | **(1,121)** | (768) | (968) |
| **Change in cash and cash equivalents** | | **409** | 1,209 | (2,293) |
| **Cash and cash equivalents at start of period** | | **1,505** | 3,798 | 3,798 |
| **Cash and cash equivalents at end of period** | | **1,914** | 5,007 | 1,505 |
| **Comprised of:** | | | | |
| **Cash and cash equivalents** | | **1,914** | 5,007 | 1,505 |

# Notes to the Interim Financial Statements

## for the six months ended 31 August 2023

### 1. General information

Downing Strategic Micro-Cap Investment Trust PLC ('the company') was incorporated in England and Wales on 17 February 2017 with registered number 10626295, as a closed-end investment company limited by shares.

The company commenced its operations on 9 May 2017. The company intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

### 2. Accounting policies

**Basis of accounting**

The unaudited financial statements for the six months ended 31 August 2023 have been prepared in accordance with the accounting policies set out in the statutory accounts for the year ended 28 February 2023, which were prepared in accordance with international accounting standards and in conformity with the requirements of the Companies Act 2006.

These Financial Statements are presented in Sterling (£) rounded to the nearest thousand. Where presentational guidance set out in the statement of recommended practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' ('SORP'), issued by the Association of Investment Companies ('AIC') issued in October 2019 is consistent with the requirements of international accounting standards, the directors have sought to prepare the Financial Statements on a consistent basis compliant with the recommendations of the SORP.

The financial information presented in respect of the six months ended 31 August 2023 and the comparative half-year period ended 31 August 2022 has not been audited. The financial information presented in respect of the year ended 28 February 2023 has been extracted from the financial statements for that year, which have been delivered to the Registrar of Companies. The Auditor's report on those financial statements was unqualified and did not include a statement under sections 498(2) or 498(3) of the Companies Act 2006.

### 3. Income

| | (Unaudited) Six months ended 31 August 2023 £'000 | (Unaudited) Six months ended 31 August 2022 £'000 | (Audited) Year ended 28 February 2023 £'000 |
|---|---|---|---|
| **Income from investments** | | | |
| UK dividend income | **373** | 142 | 688 |
| UK fixed interest income | **22** | 340 | 380 |
| Bank interest income | **20** | 2 | 20 |
| **Total** | **415** | 484 | 1,088 |

UK fixed interest income represents loan note interest receivable from Real Good Food plc and Norman Broadbent plc. UK fixed interest income forms part of the overall fair value of the loan note instruments and are therefore included within investments held at fair value through profit or loss on the Statement of Financial Position.

## 4. Investment management fee

In respect of its services provided under the Management Agreement, the Investment Manager is entitled to receive a management fee payable monthly in arrears, calculated at the rate of one twelfth of 1% of the market capitalisation as at the relevant calculation date.

The Investment Manager has agreed that, for so long as it remains the company's Investment Manager, it will rebate such part of any management fee payable to it so as to help the company maintain an ongoing charges ratio of 2% or lower.

| | (Unaudited) Six months ended 31 August 2023 £'000 | (Unaudited) Six months ended 31 August 2022 £'000 | (Audited) Year ended 28 February 2023 £'000 |
|---|---|---|---|
| **Investment management fee** | | | |
| Revenue | **31** | 33 | 62 |
| Capital | **123** | 132 | 247 |
| **Total** | **154** | 165 | 309 |

## 5. Basic and diluted return per Ordinary Share

Returns per Ordinary Share are based on the weighted average number of shares in issue during the period. As there are no dilutive elements on share capital, basic and diluted returns per share are the same.

| | (Unaudited) Six months ended 31 August 2023 | | (Unaudited) Six months ended 31 August 2022 | | (Audited) Year ended 28 February 2023 | |
|---|---|---|---|---|---|---|
| | Net return £'000 | Per share Pence | Net return £'000 | Per share Pence | Net return £'000 | Per share Pence |
| Revenue return/(loss) | **81** | **0.17** | 236 | 0.47 | (653) | (1.32) |
| Capital loss | **(3,337)** | **(7.07)** | (3,067) | (6.17) | (3,082) | (6.22) |
| Total loss | **(3,256)** | **(6.90)** | (2,831) | (5.70) | (3,735) | (7.54) |
| Weighted average number of Ordinary Shares[1] | **47,770,423** | | 49,684,468 | | 49,519,100 | |

[1]Excluding treasury shares

## 6. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 47,421,927 (31 August 2022: 49,519,882, 28 February 2023: 49,176,599) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

| | (Unaudited) 31 August 2023 | | (Unaudited) 31 August 2022 | | (Audited) 28 February 2023 | |
|---|---|---|---|---|---|---|
| | NAV per share Pence | NAV attributable £'000 | NAV per share Pence | NAV attributable £'000 | NAV per share Pence | NAV attributable £'000 |
| **Ordinary Shares:** | | | | | | |
| Basic and diluted | **71.57** | **33,939** | 79.68 | 39,460 | 77.99 | 38,355 |

# Notes to the Interim Financial Statements (continued)

for the six months ended 31 August 2023

## 7. Investments

| | (Unaudited) Six months ended 31 August 2023 £'000 | (Unaudited) Six months ended 31 August 2022 £'000 | (Audited) Year ended 28 February 2023 £'000 |
|---|---|---|---|
| Opening book cost | 42,440 | 40,512 | 40,512 |
| Opening UK fixed interest income at fair value through profit or loss | 466 | 1,282 | 1,282 |
| Opening investment holding losses | (5,979) | (2,353) | (2,353) |
| **Opening valuation** | **36,927** | **39,441** | **39,441** |
| Movements in the year | | | |
| UK Fixed interest income at fair value through profit or loss (**notes 3,8**) | 22 | 340 | 380 |
| Receipt of UK fixed interest income | (11) | - | - |
| Impairment of accrued loan note interest receivable | - | - | (1,196) |
| Investment purchases at cost | 2,759 | 1,926 | 6,321 |
| Disposals: | | | |
| Proceeds | (4,340) | (4,269) | (5,245) |
| Net realised (losses)/gains on disposals | (898) | 988 | 852 |
| Movement in investment holding losses | (2,327) | (3,923) | (3,626) |
| **Closing valuation** | 32,132 | **34,503** | **36,927** |
| | | | |
| Closing book cost | 39,961 | 39,157 | 42,440 |
| Closing UK fixed interest income at fair value through profit or loss | 477 | 1,622 | 466 |
| Closing investment holding losses | (8,306) | (6,276) | (5,979) |
| | **32,132** | **34,503** | **36,927** |
| | | | |
| Realised (losses)/gains on disposals | (898) | 988 | 852 |
| Movement in investment holding losses | (2,327) | (3,923) | (3,626) |
| **Losses on investments held at fair value through profit or loss** | **(3,225)** | **(2,935)** | **(2,774)** |

## 8. Fair Value Hierarchy

Financial assets and financial liabilities of the company are carried in the statement of financial position at their fair value. The fair value is the amount at which the asset could be sold, or the liability transferred in a current transaction between market participants, other than a forced or liquidation sale. For investments actively traded in organised financial markets, fair value is generally determined by reference to Stock Exchange quoted market bid prices and Stock Exchange Electronic Trading Services ('SETS') at last trade price at the Statement of Financial Position date, without adjustment for transaction costs necessary to realise the asset.

The company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements. Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
An active market is a market in which transactions for the asset or liability occur with sufficient frequency and volume on an ongoing basis such that quoted prices reflect prices at which an orderly transaction would take place between market participants at the measurement date. Quoted prices provided by external pricing services, brokers and vendors are included in Level 1 if they reflect actual and regularly occurring market transactions on an arm's length basis.

## 8. Fair Value Hierarchy (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 2 inputs include the following:

- Quoted prices for similar (i.e. not identical) assets in active markets.
- Quoted prices for identical or similar assets or liabilities in markets that are not active. Characteristics of an inactive market include a significant decline in the volume and level of trading activity, the available prices vary significantly over time or among market participants or the prices are not current.
- Inputs other than quoted prices that are observable for the asset (for example, interest rates and yield curves observable at commonly quoted intervals).
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means (market-corroborated inputs).

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| **31 August 2023 (Unaudited)** | | | | |
| Quoted on the Main Market | **5,082** | - | - | **5,082** |
| Traded on AIM | **21,872** | - | - | **21,872** |
| Unquoted Equity | - | - | **829** | **829** |
| Unquoted Loan Notes | - | - | **4,349** | **4,349** |
| | **26,954** | - | **5,178** | **32,132** |
| **28 February 2023 (Audited)** | | | | |
| Quoted on the Main Market | 6,392 | - | - | 6,392 |
| Traded on AIM | 25,612 | - | - | 25,612 |
| Unquoted Equity | - | - | 760 | 760 |
| Unquoted Loan Notes | - | - | 4,163 | 4,163 |
| | 32,004 | - | 4,923 | 36,927 |
| **31 August 2022 (Unaudited)** | | | | |
| Quoted on the Main Market | **4,998** | - | - | **4,998** |
| Traded on AIM | **22,554** | - | - | **22,554** |
| Unquoted Equity | - | - | **1,632** | **1,632** |
| Unquoted Loan Notes | - | - | **5,319** | **5,319** |
| | **27,552** | - | **6,951** | **34,503** |

There were no transfers between Level 1 and Level 2 during the period.

## 8. Fair Value Hierarchy (continued)

A reconciliation of fair value measurements in Level 3 is set out in the table below.

| | (Unaudited) Six months ended 31 August 2023 £'000 | (Unaudited) Six months ended 31 August 2022 £'000 | (Audited) Year ended 28 February 2023 £'000 |
|---|---|---|---|
| Opening balance | **4,923** | **6,056** | 6,056 |
| Purchases | **500** | **342** | 343 |
| Sales proceeds | **(103)** | **-** | - |
| UK Fixed interest income at fair value through profit or loss (**notes 3, 7**) | **22** | **340** | 380 |
| Receipt of UK fixed interest income | **(11)** | - | - |
| Impairment of accrued loan note interest receivable | **-** | - | (1,196) |
| Total gains/(losses) included in losses on investments in the Statement of Comprehensive Income: | | | |
| - on assets sold | **3** | - | - |
| - on assets held at the period end | **(156)** | **213** | (660) |
| Closing balance | **5,178** | **6,951** | 4,923 |

## 9. Significant Interests

As at 31 August 2023, the Company held interests amounting to 3% or more of the equity in issue by the following investee companies.

| | % of investee company |
|---|---|
| Digitalbox plc | 19.50% |
| Norman Broadbent plc | 13.35% |
| FireAngel Safety Technology Group PLC | 11.94% |
| Synectics plc | 10.80% |
| Real Good Food Company plc | 7.52% |
| Journeo plc | 6.63% |
| Centaur Media plc | 4.56% |
| Flowtech Fluidpower plc | 4.51% |
| National World plc | 4.03% |
| OnTheMarket plc | 3.10% |
| TheWorks.co.uk plc | 4.48% |

## 10. Dividends paid in the period

| | Six months ended 31 August 2023 £'000 | Year ended 28 February 2023 £'000 |
|---|---|---|
| Dividends paid during the period | - | 149 |

The Directors did not recommend the payment of a final dividend for the year ended 28 February 2023.

# Interim Management Report

The directors are required to provide an interim management report in accordance with the UK Listing Authority's Disclosure and Transparency Rules ('DTR'). They consider that the Chairman's Statement and the Investment Manager's Report on pages 7 to 12 of this Half-Yearly Financial Report, the following statements on principal risks and uncertainties; related party transactions; and going concern, together with the directors' Responsibilities Statement below together constitute the interim management report for the company for the period ended 31 August 2023.

The company is required to make the following disclosures in its Half-Yearly Financial Report.

## Principal Risks and Uncertainties

The principal risks faced by the company fell into the following broad categories: investment performance; operational; financial; and legal and compliance. The board reported on the principal risks and uncertainties faced by the company in the Annual Report for the year ended 28 February 2023. Information on each of these areas can be found in the strategic report on pages 39 to 48 and in note 14 on pages 87 to 90 of the Annual Report available on the company's website at www.downingstrategic.co.uk.

## Related Party Transactions

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or performance of the company during the period.

## Going Concern

The directors, having considered the company's investment objective, risk management policies, the nature of the portfolio and the company's income and expenditure projections, are satisfied that the company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the accounts.

## Directors' Responsibility Statement

The directors confirm that, to the best of their knowledge, the condensed set of financial statements contained within the Half-Yearly Financial Report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" and the Half-Yearly Financial Report includes a fair review of the information required by:

- DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the year; and
- DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place during the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period, and any changes in the related party transactions described in the last annual report that could do so.

**Hugh Aldous**
Chairman
9 November 2023

# Shareholder information

## Financial Calendar

| | |
|---|---|
| Company's year end | 28 February |
| Annual Results announced | May |
| Annual General Meeting | June |
| Company's half-year end | 31 August |
| Half-yearly results announced | November |

## Share Price and NAV

The Company's Ordinary Shares are listed on the main market of the London Stock Exchange. The market price of these shares can be found in the London Stock Exchange Daily Official List and in the Financial Times. The Company's NAV is published daily and released through the London Stock Exchange's Regulatory News Service and is available through the AIC.

## Registrar enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the registrar on 0370 707 1358.

Changes of name and/or address must be notified in writing to the registrar, whose address is: Computershare

Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ.

## Common Reporting Standard

Under the Common Reporting Standard financial institutions, including investment trust companies, are required to provide personal information to HMRC on investors who meet certain criteria set out in the legislation.

On an annual basis the company will provide information to the local tax authority on the tax residencies of non-UK based certificated shareholders and corporate entities. The local tax authority may exchange this information with the tax authorities of another country or countries in which the shareholder may be a tax resident, where those countries, or the tax authorities in those countries, have entered into agreements to exchange financial accountinformation.

New shareholders, excluding those whose shares are held in CREST, entered onto the company's share register, will be sent a certification form for the purposes of collecting this information.

## Share dealing

Investors wishing to purchase more shares in the company or sell all or part of their existing holding may do so through their financial adviser, stockbroker or one of the platforms listed on the company's website: www.downingstrategic.co.uk

## Nominee code

Where shares are held in a nominee company name, the company undertakes:

- to provide the nominee company with multiple copies of shareholder communications, so long as an indication of quantities has been provided in advance;
- to allow investors holding shares through a nominee company to attend general meetings, provided the correct authority from the nominee company is available; and
- nominee companies are encouraged to provide the necessary authority to underlying shareholders to attend the company's general meetings.

# Shareholder information (continued)

## Website

Your board is committed to shareholder engagement. To receive regular news and updates about your company please visit: www.downingstrategic.co.uk.

Useful information on the company, such as investor updates and half year and Annual Reports can be found on the company's website.

## Company information

Downing Strategic Micro-Cap Investment Trust PLC is an investment company as defined under Section 833 of the Companies Act 2006. The company is an investment company within the meaning of Section 833 of the companies Act 2006 and it has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010) for the period ended 28 February 2018 and future years. The directors have no reason to believe that approval will not continue to be obtained. The company is not a close company for taxation purposes.

Country of incorporation: England. Company Number: 10626295.
Registered office: 6th Floor, St. Magnus House, 3 Lower Thames Street, London EC3R 6HD

## AIC

The company is a member of the Association of Investment Companies.

# Directors and Advisers

**Directors**
Hugh Aldous (Chairman)
Linda Bell
William Dawkins
Robert Legget

**Company Secretary**
Grant Whitehouse
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

**Administrator**
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD
Telephone: 0207 416 7780

**Auditor**
BDO LLP
55 Baker Street
London W1U 8EW

**Solicitor**
Dickson Minto
Broadgate Tower
20 Primrose Street
London EC2A 2EW

**Investment Manager**
Downing LLP
6th Floor, St. Magnus House
3 Lower Thames Street
London EC3R 6HD

**Registrar**
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 707 1358

**Custodian**
The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

**Broker**
Cavendish Capital Markets Limited
(formerly finnCap Limited)
1 Bartholomew Close
London EC1A 7BL

Company number: 10626295

**November 2023** DSM3114

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