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Downing Strategic Micro-Cap Investment Trust PLC

Annual Report and Financial Statements

28 February 2023

Company Number: 10626295

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 the Investment Manager has 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 over 50% of UK listed companies.
- ▷ On average, there are fewer than two 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 when fully invested.
- ▷ 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.
- ▷ The Investment Manager focuses on cash generation and return on capital metrics.

Strategic involvement

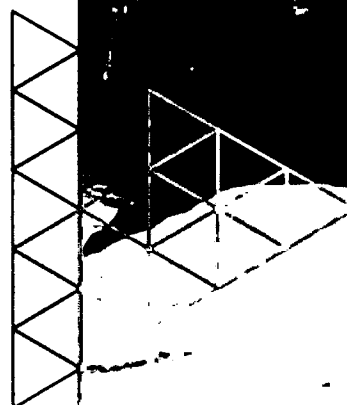
- ▷ The Investment Manager seeks to invest in companies which are materially undervalued and where there is scope for strategic involvement going forward.
- ▷ Strategic mechanisms typically include but are not limited to: providing funding for organic and inorganic growth; providing capital for restructuring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

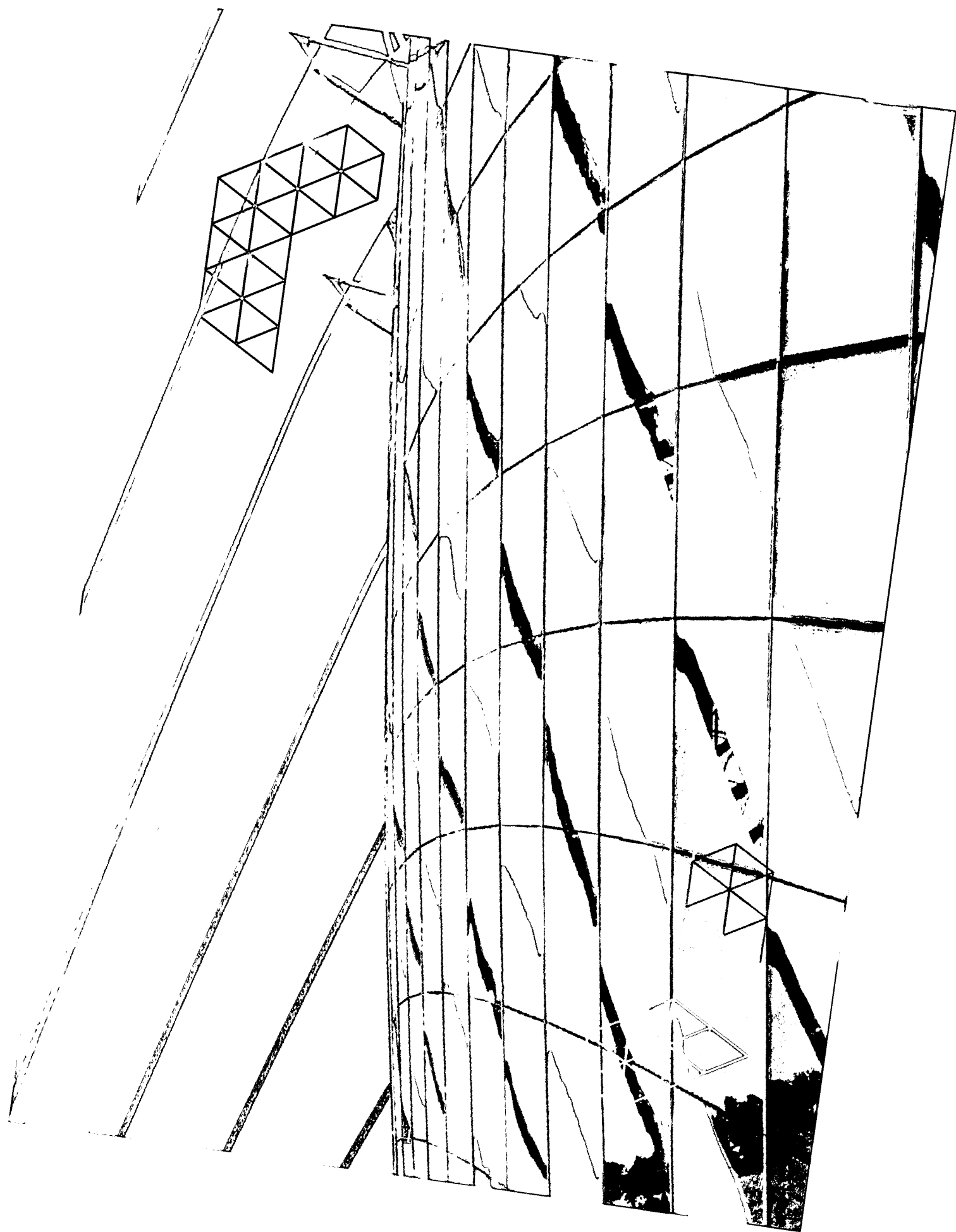
Discount control

- ▷ The Company has a buyback procedure which, in normal markets, seeks to manage the discount of the Company's share price against the underlying net asset value (NAV) per share.

Contents

	Page
Overview and performance	
Financial highlights	5
Operational highlights	6
Chairman's Statement	7
Investment Manager's Report	10
Portfolio	
Investments	16
Background to the investments	17
Our expectations of the investee companies	36
Investment team	37
Governance	
Directors' biographies	38
Strategic Report	39
Directors' Report	49
Corporate Governance Statement	55
Report of the Audit Committee	60
Directors' Remuneration Report	63
Statement of Director's responsibilities	67
Financial Statements	
Independent auditor's report	68
Statement of Profit or Loss and Other Comprehensive Income	76
Statement of Changes in Equity	77
Statement of Financial Position	78
Statement of Cash Flow	79
Notes to the Financial Statements	80
Additional information	
Shareholder information	93
Glossary	95
Advisers	
Contact details of the Advisers	96
Annual General Meeting	
Notes in respect of the Annual General Meeting	97
Notice of the Annual General Meeting	98





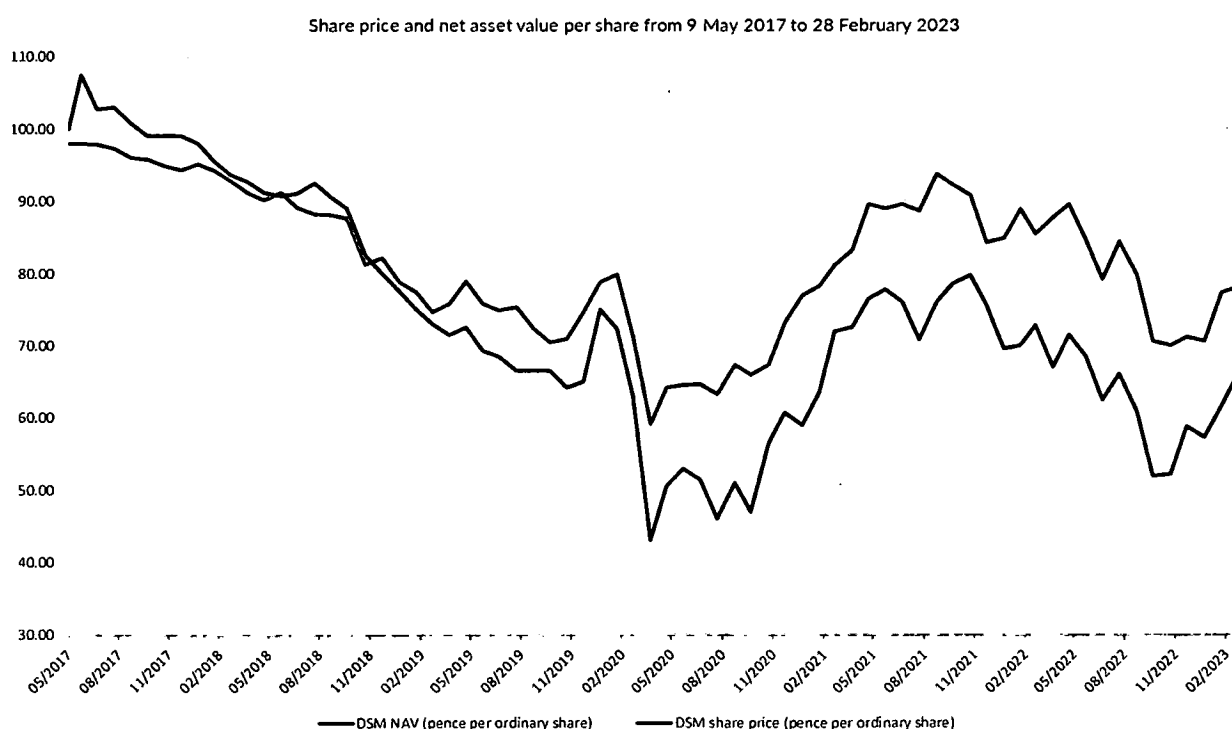
Financial highlights

Assets	28 February 2023	28 February 2022	Change %
Net assets (£'000)	38,355	43,059	(10.92%)
Net asset value ("NAV") per Ordinary Share ¹	77.99p	85.43p	(8.71%)
Mid-market price per Ordinary Share	65.70p	72.75p	(9.69%)
Discount ¹	15.76%	14.84%	

¹ Alternative Performance Measure (see page 44)

Revenue	Year ended 28 February 2023	Year ended 28 February 2022
Revenue return per Ordinary Share	(1.32p)	0.42p
Capital return per Ordinary Share	(6.22p)	4.29p
Total return per Ordinary Share	(7.54p)	4.71p

Performance from 9 May 2017 to 28 February 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 at the end of the reporting period:

 AdEPT	AdEPT Technology Group PLC (AdEPT)	National World plc	National World PLC (National World)
CENTAUR	Centaur Media PLC (Centaur)	NORMAN!BROADBENT <small>BOARD SEARCH INTERIM CONSULTING INSIGHT SOLUTIONS</small>	Norman Broadbent PLC (Norman Broadbent)
digitalbox.	Digitalbox PLC (Digitalbox)	 OnTheMarket	OnTtheMmarket plc (Onthemarket)
 EQUALS Group	Equals Group PLC (Equals Group)	 RAMSDENS	Ramsdens Holdings PLC (Ramsdens)
 FireAngel <small>SAFETY TECHNOLOGY</small>	FireAngel Safety Technology PLC (Fireangel)	Real Good Food plc	Real Good Food PLC (RGF)
 FLOWTECH FLUIDPOWER	Flowtech Fluidpower PLC (Flowtech)	 SYNECTICS	Synectics PLC (Synectics)
 Hargreaves	Hargreaves Services PLC (Hargreaves)	 TG TACTUS GROUP	Tactus Holdings Limited (Tactus)
INSPECS <small>GROUP PLC</small>	Inspects Group PLC (Inspects)	TheWorks.co.uk	TheWorks.co.uk PLC (TheWorks)
Journeo	Journeo PLC (Journeo)	 Volex	Volex PLC (Volex)

Highlights

- ▶ 8.7% decrease in NAV per share and 9.7% decrease in the share price, compared to a 17.4% decrease in the FTSE AIM All-Share TR index over the 12 months to 28 February 2023, driven by increasing negative sentiment towards UK smaller companies given the macro-economic headwinds.
- ▶ Focused portfolio of actively managed investments with exciting catalysts in play, which should prove reliable in volatile markets.
- ▶ Most of the investments have progressed through the 'J curve' and are now in either late-stage turnaround or value realisation phase.
- ▶ The majority of investee companies are well-financed, and resilient in the face of the macro headwinds.
- ▶ C.£1.5 million of cash to deploy as at 28 February 2023 and a strong list of potential new investments which will be executed during the right conditions and at attractive valuations.
- ▶ Optionality of a liquidity event in May 2024.
- ▶ Improving market conditions favour the Company's active, value style.

Chairman's Statement

Overview

Looking back over 2022, it was a difficult year for almost all markets and portfolios, marked by steep declines for small-cap and micro-cap investing entities. Nevertheless, even though ending 8.7% down over the year, DSM outperformed the AIM index comfortably and has eventually beaten the FTSE Small Cap. That follows last year's performance when the company's NAV was up 5.3% compared to the FTSE AIM All-Share's decline of 21%. 2023 is proving almost impossible to assess as central banks tussle to bring down inflation, the IMF sees no growth at all for the UK and inflation continues to dictate interest rates. Markets have been largely inactive and depressed. The worst was through the summer and autumn of last year and companies had to be resilient and determinedly managed, not highly indebted, to cope with that economic environment.

Your company's portfolio demonstrated that resilience and during 2023 to date DSM has been a good performer amongst micro-cap investment trusts with a 10% increase in NAV.

Portfolio performance

Although NAV per share declined in the financial year, from 85.43p to 77.99p, that better than most investment company comparators. More to the point, the constituents of the portfolio remained largely strong and adequately financed. Its constituent companies have generally sorted themselves. There has already been successful M&A activity within the portfolio since the year end. The Manager's Report will take you through the prospect of further advantageous realisations.

Something like half of DSM's portfolio is ripe to be acquired or otherwise realised. DSM has consistently pointed out that its portfolio is at carried values that are something like 40% to 50% below market analysts' consensus values. In the first quarter of this year, one investment has been bought by Macquarie at a premium of over 70% to its carrying value. We will just have to see what interest develops in the rest.

Dividend

In the past, we have usually paid a small dividend in line with the Investment Trust regulations (0.3p per share in 2022) when we have generated a revenue surplus for the year. This year we have taken a cautious view on loan stock interest, deferring recognition until it is paid. As a result, there is no revenue surplus showing on the Income Statement and consequently there will be no small year-end dividend.

Shareholders' interests

Your board is well aware of the share price discount and consistently tries to ameliorate unnecessary volatility in the share price. We have been constrained in efforts from time to time: once, at the back end of last year, when inside information stopped any discount management, and once at the beginning of this year when an unusual technical issue did the same. So, the discount has rather wandered between 20% and 15%. We have been modestly buying back of late whenever markets are stable. At the time of writing, the discount is 15.9%. On 9 January 2023 we re-iterated our cash redemption offer in a regulatory announcement. Before issuing that announcement, we talked to all our largest shareholders. Our published intentions met their interests. That January announcement discusses the board's steps ahead including its policy on discount management, the cash redemption offer and the varied outcomes that might follow from a strategic review if the cash offer is widely taken up. Those assertions make for an attractive potential return in these worrisome times.

Chairman's Statement (continued)

Shareholders' interests (continued)

Even so, communicating with the wider body of shareholders and potential investors is not easy. Commentators and analysts do not have the time. Reports and accounts are too long (ours is 100-odd pages). Thousands of shareholdings are held in nominee names via platforms. To try to overcome some of those problems, we embarked on an extensive exercise using s793 of the Companies Act to penetrate the holdings in nominees. We received a response of about 10% and we were told that was good! Our managers ran several webinars and to the latest we received a couple of dozen responses, all of which were supportive and positive. I continue to contact the larger shareholders two or three times a year, which is apparently unusual for chairmen.

Provision of information to shareholders

The board and a team at Downing have been developing a new DSM website from which shareholders and potential investors can navigate across sources of information set out for them including investor letters, analysts' reports, DSM's performance and its portfolio. The link to the new website is:

www.downingstrategic.co.uk

We press on to try to obtain more interested parties to register their interest so we can keep you up to date with our communications.

Governance

Our own governance

As in all years, the board undertakes an extensive appraisal of itself and the managers (and they of us, as a matter of interest) which is a process of continuous improvement that works well.

More widely

High quality corporate governance and clarity of objectives support shareholder value through constructively critical executive oversight. Boards of directors are not there simply to feel comfortable. Directors are the critically important stewards of their companies. The buck does stop with them, whether that is the board of a large bank or the vitally important board steering and monitoring a small AIM business. The failings of boards are all too tiresome as well as economically damaging. A DSM principle is to be constructively determined in aiming for effective boards.

Forward view

Across a range of indicators, financial conditions are now very tight. That suggests more economic difficulties for the US and Europe and continuing concern amongst investors about their cash holdings and investments. If in addition UK inflation becomes entrenched, the cost to the economy and society of dealing with that will be tough. Unwinding will expose the consequences of past lack of investment and just how many things are now going to be more difficult if money is no longer cheap.

Your board can take a view on whether businesses have clear objectives whilst the managers assess management, direction, and balance sheets. Most of DSM's portfolio has proved to be resilient and comparatively cheap. Much of its management has been assessed and improved. As to the UK, slowly, all too slowly, its leadership is, maybe, learning; learning politically, in its establishment and its governance that poor management leads to poor returns and comparative decline whilst, sadly, its leaders tackle stagnation and inflation through a playbook of responses. In the meantime, your portfolio should do much better than that, as it has done in recent years. It is a portfolio for the future of the more determined UK.

As to DSM's managers – the team are one of the few who have real determination to change, improve and inject catalytic transformation into their investments. DSM's portfolio is a portfolio for change and for a hopefully recovering country.

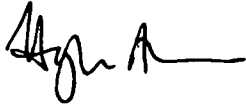
Thanks go to the board and managers through a difficult year for markets but another year of progress for DSM.

Chairman's Statement (continued)

AGM

The AGM will be at 12:00 pm on 6 July 2023 at Downing's office at St Magnus House, 3 Lower Thames Street, London EC3M 6HD. We ask shareholders intending to attend to register by email to dsmagm@downing.co.uk so that the Registrars have your details. The notice of the AGM is set out on page 98 of this report with notes in respect of special business to be proposed at the meeting. We encourage shareholders to submit their proxy votes in advance of the deadline of 4 July 2023.

In addition to the AGM, the Company is also planning to issue a circular shortly to complete the resolution of the technical matter regarding the company's share capital which was addressed earlier in the year.



Hugh Aldous
Chairman
5 May 2023



Investment Manager's Report

Hunting Value, Enabling Transformation

As we have written about many times before - strategic investing takes time, requires catalysts to be exercised, and outcomes tend not to be correlated to wider markets. Negative sentiment has not been the friend of smaller UK companies over the last two years. This has made it even more important for the DSM philosophy and style to be adhered to. We believe that the coming months and years could lend themselves to our style of stock-picking, value orientated investing, as the absence of 'free money' and the importance of cash flows returns to investors' minds.

DSM builds and helps realise value in UK small companies. DSM is focused, long term, and the managers unlock value by executing on specific catalysts driven by company management. We are able to do this by concentrating on a focused portfolio (12-18 positions) and taking between 3-25% of the underlying equity, awarding us a seat at the table.

We focus on companies under £150m market capitalisations as they tend to be overlooked by investors, therefore providing pricing anomalies. We are engaged investors. We like investing in companies which, whilst solid, might be underperforming their potential and are overlooked by the market. We invest where we see the opportunity for constructive corporate engagement to unlock improved sustainable returns for all stakeholders.

This style is likely to lead to periods of NAV per share performance that is quite different to the wider market. Out of the 70 months of DSM's life for instance, the performance has been 1st or 2nd quartile for over 30 months, whilst 4th quartile for 21. We realise there is still significant ground to make up from the early years of the Company. However, we think that recent performance should allow the current and potential investor to understand the journey of our underlying portfolio, and how it is reaching maturity with some significant catalysts playing out within it. We highlight these later in the report.

Since inception, we have undertaken a multitude of constructive engagements, these include board improvements, engaging on operational improvements, M&A, disposals, and helping to guide strategic direction. More specifically, in the last 12 months we have engaged with management teams in the following capacities (this list is a sample and just an example of some of what goes on behind the scenes):

- ▶ AdEPT Technology Group, invested in 2020 when revenues were £34m and EBITDA £7.8m. Based on the last full year accounts, revenues were £68m and EBITDA £11.9m. We worked with management and other shareholders to deliver a trade exit during 2022/23. In Feb 2023 the company achieved a successful exit to WaveNet (a Macquarie backed company) at a 75% premium to our holding value pre-announcement.
- ▶ New Chairman at Synectics. Succession and appropriate handover period. DSM managers were involved in interview process and selection.
- ▶ Attended DigitalBox board meetings in a monitoring capacity.
- ▶ Engaged with a number of investees on next steps and strategic realisations and approaches both for exit and M&A.
- ▶ Engaged with new position Journeo and its shareholders regarding the appointment of a new NED.
- ▶ Catalysed new FD appointment at Norman Broadbent.
- ▶ Continued active engagement in a non-executive capacity at Real Good Food.

Investment Manager's Report (continued)

We know that constructive corporate engagement can unlock value because we can see the results in our portfolio, (see tables on pages 12 and 14 for an illustration of the catalysts in play to date, and where we believe value will be found in our Top 10 positions).

Good ESG practice has always been core to the DSM investment ethos. We probably didn't realise how well we were doing it. We have now become more diligent in ensuring accurate reporting of ESG credentials within the portfolio, and we include some key metrics below.

Over the period, we have conducted 24 engagements with 13 companies on various ESG issues such as board independence, climate change and ESG disclosures. Four of the engagements are resolved, while the rest are ongoing. All of this stewardship activity is logged in an Engagement Tracker to monitor the companies' progress and performance, as well as manage escalations. We voted on 160 shareholder resolutions, whereby 9% of votes were against management recommendations. All of the votes against management were due to changes in capital structure.

A summary of our voting at General Meetings for the year is below (unless otherwise stated all meetings are Annual General Meetings):

	Meeting date	Number of resolutions	Management recommendation	Our votes	Rationale for decision
Synectics plc	20/04/2022	10	For all	For all	
Centaur Media plc	11/05/2022	17	For all (excl. 14 & 15)	For all	Against pre-emption rights waiver
Equals Group plc	17/05/2022	4	For all	For all (excl. 4)	Against pre-emption rights waiver
Digitalbox plc	16/05/2022	11	For all	For all	
National World plc	11/07/2022	13	For all	For all	
Flowtech Fluidpower plc	01/06/2022	13	For all	For all (excl. 12)	
Venture Life Group plc	20/06/2022	7	For all	For all (excl. 5 & 6)	
Fireangel Safety Technology plc	21/06/2022	9	For all	For all	
Norman Broadbent plc	23/06/2022	9	For all	For all	
Volex plc	19/08/2022	12	For all	For all (excl. 11 & 12)	
Adept Technology Group plc	20/09/2022	9	For all	For all (excl. 7)	Against pre-emption rights waiver
Hargreaves Services plc	27/10/2022	10	For all	For all (excl. 10 & 11)	
Real Good Food plc	27/10/2022	7	For all	For all	
Theworks.co.uk plc	27/10/2022	14		For all	
Ramsdens Holdings plc	27/02/2023	12	For all	For all	

We decided not to 'outsource' ESG, as this is an important part of our diligence and monitoring process. We as managers need to be accountable. Therefore, we have created our own 'scorecard' for companies, which considers that one-size-does not fit all. We are pragmatic but lack patience where we see behaviours that are not acceptable socially, corporately, or environmentally. Often, we are engaging with our investees on how to improve their reporting and disclosures.

The added benefit of our integrated approach is that an investee that reports well on all matters ESG should pique the attention of new shareholders, drive more efficient returns on equity, and over time achieve a better rating.








Performance and portfolio activity

The year ending February 2023 represented a depressing and volatile period for equity investors, particularly those investing in small UK businesses. The macro issues are well known and don't need reiteration here. We believe that the time where cheap money was available has gone, inflation hasn't stabilised and hence the 'tool' of interest rates to balance the economy hasn't played out yet. Hence, this is a good time for a value orientated stock-picker in an overlooked market. The UK market now looks cheaper on relative terms than it has done for most of our careers.

Investment Manager's Report (continued)

Performance and portfolio activity (continued)

Below we include a slide from our recent investor presentation which summarises the outlook and reporting from the top 10 positions in the portfolio over the reporting year, and our expectations for 2023.

Company	% of NAV	FY22 reporting	Outlook for FY23
Real Good Food plc	10.5%	Resilient trading through Covid. Headwinds of cost inflation hit in 2022	Costs being passed through. FY March 24 forecast of £2-4m EBITDA
CENTAUR	9.1%	Impressive 2022 earnings. EBITDA £8.5m +33%. Two special dividends	Commitment to £45m revenue and 23% EBITDA margin in '23 on track
 FLOWTECH FLUIDPOWER	8.5%	Covid recovery has played through as expected	Distributors generally do okay in an inflationary environment. Inventory turns and cash generation can improve
 Hargreaves	8.5%	Record year aided by associate contribution	Land resilient. Services growth. Potential capital return from associate
 RAMSDENS	6.6%	A year of recovery, and restructure of online business	Continued recovery in FX. Good Loan Book progression
 SYNECTICS	6.3%	Restructure bedded in. Recovery in infrastructure markets	Recovery in gaming driving earnings. Better quality of recurring revenue deserving higher multiples
National World*	5.3%	Strong year in a challenging market. Growing cash balance	Upgraded EPS expectations. Flexible operating model expected to provide benefits versus peers
 Prologis	5.0%	Headwinds on supply chain disappointed earnings outcome	Cost pass through driving operational gearing with tail wind of strong demand
 INSPEKS GROUP PLC	4.6%	Annus horribilis provided a buying opportunity	Earnings recovery from 2022 trough driven by reduced Norville losses and Eschenbach cost initiatives
 digitalbox.	4.5%	Very strong full year but with H2 headwinds	Headwinds continue but cash balance provides optionality

The Top 3 Contributors:

Centaur Media saw its share price rise by 23.9% in the period and contributed 2.3% to performance. Centaur is certainly coming of age – having weathered Covid well, we had been concerned about potential negative macro influences that could affect this media orientated business. However, given the levers it had to pull from an operational perspective, we have been reassured to see the continued resilience in the business. This was in part due to the unique aspects of its brands and offerings – The Lawyer being the predominant title for the legal profession, and the growth of the 'Mini MBA' continuing to buck the trend of a relatively stagnant wider marketing industry. Upgrades and a special dividend have buoyed the share price, but we still believe there is significant latent value here and as the company delivers on its MAP-23 margin plan, it will have a double-digit free cash flow yield and a single digit PE.

Ramsdens saw its share price up by 21.8% in the period and contributed 1.4% to performance. This was a reflection of trading improving to close to pre-Covid levels, the articulation of a refreshed new store opening program, and the results of a revitalised online jewellery offering. In the thick of Covid, Ramsdens was one of DSM's worst hit investments – store closures put the business strategy on ice. However, we believe that this management team is one of the strongest and most manoeuvrable in the portfolio, and they used their time well. After only modest spend on the online jewellery site and a revamp of FX, the opening up of Covid restrictions evidenced an improvement in jewellery sales. The group recently reported in a trading update that jewellery retail gross profit increased by over 20% on the prior year, reflecting further growth both in store and online. Meanwhile FX has returned to c.70% of pre-Covid and the loan book has improved to £9.7m.

Synectics saw its share price up by 18.2% in the period and contributed 1.5% to performance. This was a recognition of good order intake and new contract wins which included the most recent Saudi pipeline surveillance contract for £3.5m. The analyst forecasts are underpinned by this contract's strength and therefore look to an EBITDA of £4.3m in 2023, implying an EV/EBITDA multiple of sub 5x. Next year (2024) this drops to sub 4x, delivering a 10% free cash flow yield. Clearly the market is cynical on delivery of this, however, confidence from management and the arrival of a new chair has begun to attract attention to a company that has been overlooked by the market.

Investment Manager's Report (continued)

Performance and portfolio activity (continued)

Top 3 Detractors:

FireAngel saw its share price down by 26.9% in the period and detracted 3.3% from performance. We often describe this company as the one in the portfolio that is notorious for finding the banana skin to slip on. Although our confidence in management's ability to execute was heightened through the last 18 months as the gross margin delivery plan was delivered, this has been further hampered recently by macro headwinds. Although demand is strong and the barriers to entry are significant, we are ensuring management focus on the execution of getting product out the door. The recent Techem contract news illustrates the strength of the IP and the market leading advantage of FireAngel. This has yet to translate to shareholder value. Ultimately, we believe that FireAngel should be part of a much larger entity, who could benefit from the IP, the dominant market position and regulatory growth in the market.

DigitalBox saw its share price down by 42.3% in the period and detracted 4.0% from performance. After a stellar first half of the year, trading deteriorated in the second half as a result of wider ad spend headwinds. Regardless, the group still delivered a strong performance, owed to the lean operating model centred around the Graphene Ad-Stack and core titles Entertainment Daily, The Daily Mash, The Tab, and now, The Poke. While strategic progress has been relatively slow due to the valuations of media businesses through 2021 and the first half 2022, expectations of the vendors of private businesses are now reducing and there is greater opportunity for Digitalbox management to deploy capital. Buying sub-scale assets is a proven strategy in public markets but requires patience. Management is also proving their track record here with The Tab paying itself back in less than a year. The Poke, acquired at the end of 2022, will add to the group's depth in satirical content which generates strong yields, and we believe this can generate similar payback to The Tab. Overall, we remain positive on the group's prospects. While they can be subject to algorithm changes on the social media platforms, they have proven adept at navigating these in the past and a healthy net cash balance sheet provides comfort and opportunity in a market currently facing headwinds.

Tactus, a private holding, saw the value of its C shares written down by 34.9% in the period, detracting 1.8% from performance. While near term trading is difficult, Tactus retains a strong market position in the PC gaming space which is one of the fastest growing forms of digital entertainment globally. It also has an established market position through supply of its own and third-party branded PCs to the consumer, enterprise, and education sectors. Tactus experienced difficulties through 2022, mostly driven by a weaker consumer environment and significant de-stocking of all retail channels following buoyant Covid trading. There were also fewer new product releases through the year which often provide a catalyst for upgrade and replacement cycles. While earnings were significantly lower, operating cash generation was very strong as the company was able to prioritise inventory sell through and to reduce overall levels of working capital. Consumer appetite should return as attitudes adjust to a higher cost of living through 2023, and Tactus has significant untapped opportunity in the B2B space where they have added headcount and are significantly under penetrated versus peers. While the write down is disappointing, this should be taken in the context of the total investment and returns to date. Of a total investment of £1.9m across equity and loan notes, DSM has realised a total of £1.4m. The loan notes were fully redeemed less than four months after our investment, returning 13% in total, including the redemption premium and arrangement fee. The equity element disposed of at the same time returned over 3.6x our cost. Overall, DSM has recouped 75% of its total cost of investment to date yet retains over 84% of its equity stake.

Investment Manager's Report (continued)

Activity in the period








Four new investments were made in the period: Norman Broadbent, TheWorks, Inspects, and OnTheMarket, and we topped up modestly in another three positions. This incurred a spend of £6.3m. Meanwhile, an outright disposal was made in one company, Venture Life, where we had lost confidence in management's capabilities re capital deployment and controls.

Alongside this transaction we took profits in four others, realising £5.2m in total, at a realised gain of £852,000. Net cash at the period end was 3.9% of net assets, before the proceeds of AdEPT Technology which, received post period end, will add c£2.48m to cash.

Outlook

In terms of our outlook, we focus on where we are on the value creation journey with our portfolio. The table below highlights where we believe value creation is likely to be derived within our top 10 holdings over the course of the next 12-24 months.

As you can see, there is a clear pathway to value realisation, or an identification of where the market has undervalued companies, across the portfolio.

Company	% of NAV	Comment
Real Good Food plc	10.5%	Value sits in Loan Stock, with double digit accrued interest and redemption premium. Capital is £3.28m, with interest accrued of £3.1m, of which c£2m is not reflected in the DSM NAV
CENTAUR	9.1%	Delivery of commitment to £45m revenue and 23% EBITDA margin in '23 will drive a 12% free cash flow yield. Rerating from EV/EBITDA of 7x towards sector multiple of 12.5x. Consensus at 78p which is below our SOTP assumption
 FLUIDPOWER	8.5%	Pathway to double digit margins is established, now needs strategic execution. Online can facilitate cross sell and wallet share growth. Re-rating to 10x+ and de-gearing opportunity over short-medium term
 Hargreaves	8.5%	Associate and renewables realisations could be £50+ million. Cleaner group without pension is easier to understand and value
 RAMSDENS	6.6%	Return to pre-Covid earnings is on track, with improved efficiencies with online offering improving margin. Expansion into SE should provide enhanced ROI
 SYNECTICS	6.3%	Return to pre-Covid trading in Asia. Earnings forecasts underpinned by better margin on services and infrastructure contracts. FY'23 EBITDA of £4.3m. Net Cash of £4.3m and a double-digit free cash flow yield deserves a re-rating from 4.6x EV/EBITDA to c. 9/10x
National World	5.3%	Digital progress offsetting print declines can transform the earnings profile and rating. Cash deployed on earnings accretive deals can prove the strategy. Rating recovery will be market/ sentiment dependent
 FireAngel	5.0%	Delay in earnings progression due to headwinds of supply chain in 2022 are lifting. 2023 key year for the Techem contract -not included in forecasts. Currently 3xEV/EBITDA due to cynicism on delivery of earnings - as news flow improves this should change. Delivery is key
 INSPECTS	4.6%	Earnings recovery to c\$24m EBITDA in 2023 largely underwritten by cost savings and self-help, accompanied by a re-rating. Medium- and longer-term growth opportunities and delivery against strategy can regain a premium multiple
 digitalbox.	4.5%	M&A opportunities and organic growth can build a £2m EBITDA business. Requires media recovery for a fair rating

Investment Manager's Report (continued)

Despite what we think will be volatile markets over the coming 12 months, we believe the catalysts put in place by management within this portfolio should provide non-index correlated returns, with value creation playing out in a maturing portfolio. More generally, we think the focus of the market is likely to play to DSM's favour. Higher inflation isn't great for larger monolithic companies but favours smaller companies that can grow faster than inflation. As the cost of capital increases, there will be investor focus on real assets and real earnings (cash) - which is a feature of the DSM portfolio where the majority of positions hold cash on the balance sheet. Capital allocation, buybacks and self-help are features of the DSM portfolio, as is the focus on organic growth versus M&A. We believe the market headwinds could in fact be DSM tailwinds once combined with the strategic catalysts playing out in the portfolio.

Judith MacKenzie

Head of Downing Fund Managers and partner of Downing LLP
5 May 2023



Investments

As at 28 February 2023

	As at 28 February 2023	As at 28 February 2022
	Market Value (£'000)	% of Total Assets
Centaur Media plc	3,484	9.08
Flowtech Fluidpower plc	3,273	8.53
Hargreaves Services plc	3,269	8.52
Real Good Food 10% Loan Notes ¹	2,528	6.59
Ramsdens Holdings plc	2,520	6.57
Synectics plc	2,402	6.26
Adept Technology Group plc	2,394	6.24
National World plc	2,040	5.32
Fireangel Safety Technology plc	1,904	4.96
Inspects Group plc	1,769	4.61
Digitalbox plc	1,724	4.50
Volex plc	1,568	4.09
Equals Group plc	1,494	3.90
Onthemarket plc	1,445	3.77
Real Good Food 12% Loan Notes ¹	1,420	3.70
Journeo plc	1,419	3.70
Theworks.co.uk plc	868	2.26
Tactus Holdings Limited ²	760	1.98
Norman Broadbent plc	334	0.87
Norman Broadbent 10% Loan Notes ¹	215	0.56
Real Good Food plc	97	0.25
Venture Life Group plc	-	-
Other	-	-
Total investments	36,927	96.26
Cash	1,505	3.93
Other net current assets	(77)	(0.19)
Total assets	38,355	100.00

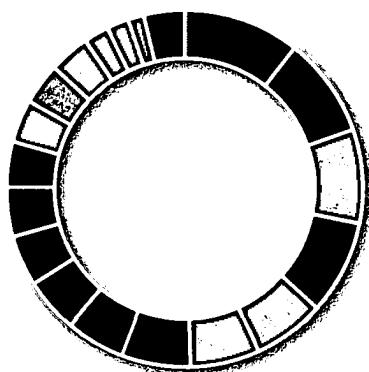
¹ Unquoted. Stated inclusive of the fair value of unpaid interest income

² Unquoted

All investments are in Ordinary Shares and traded on AIM unless indicated. The total number of holdings as at 28 February 2023 was 18 (28 February 2022: 15). Details of the equity interests comprising more than 3% of any company's share capital are set out in note 17. As at 28 February 2023, loan note principal represented 9.64% (28 February 2022: 7.29%) of total assets and the total of loan note principal and interest represented 10.85% (28 February 2022: 10.27%). The table above includes net current assets of £1,428,000 that are also disclosed in the statement of financial position.

Portfolio Distribution

As at 28 February 2023



- Real Good Food plc 10.54%
- Centaur Media plc 9.08%
- Flowtech Fluidpower plc 8.53%
- Hargreaves Services plc 8.52%
- Ramsdens Holdings plc 6.57%
- Synectics plc 6.26%
- Adept Technology Group plc 6.24%
- National World plc 5.32%
- Fireangel Safety Technology plc 4.96%
- Inspects Group plc 4.61%
- Digitalbox plc 4.50%
- Volex plc 4.09%
- Equals Group plc 3.90%
- OnTheMarket plc 3.77%
- Journeo Plc 3.70%
- TheWorks.co.uk plc 2.26%
- Tactus Holdings Limited 1.98%
- Norman Broadbent plc 1.43%
- Net Current Assets 3.74%

Background to the investments

(unless otherwise stated all information provided as at 28 February 2023)

Key: GREEN: Good RED: Negative ORANGE: Neutral

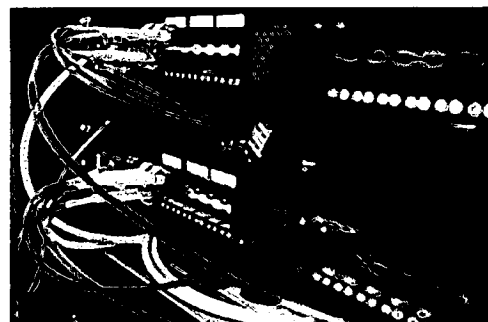
AdEPT Technology Group PLC (AdEPT) (6.24% of net assets)

Cost: £3.83m Value as at 28 February 2023: £2.39m

Background

AdEPT is one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, and voice solutions. AdEPT's tailored services are used by thousands of customers across the UK and are brought together through the strategic relationships with tier-1 suppliers such as Openreach, Vodafone, Virgin Media, Avaya, Microsoft, Dell, and Apple.

AdEPT functions as an aggregator of telecoms services providing a smoother, integrated service to corporate and government organisations. We were attracted by the high operational gearing and recurring revenue streams at attractive margins. Communications and technology have converged over recent years and that is only set to accelerate into the future, and AdEPT is well placed to benefit from this trend.



Update to the investment case

- Trade exit to Wavenet, a subsidiary of the private equity backed Macquarie Group Limited, at a 75% premium to the holding value in DSM at the time of the announcement.

Progress against investment case

Wavenet Group, a subsidiary of Macquarie Group, a global financial services group, based in Australia, announced an all-cash offer for AdEPT. We believed that AdEPT had over-gearred, and that it would take considerable time for the market to realise the quality of the earnings and market position that the business had achieved. Therefore, we were keen to drive an exit as we believed the derisory multiple that the company has been trading at since before Covid was likely to continue in public markets. With the managers of DSM urging an exit, management embarked on a process to sell the business which resulted in Wavenet offering a significant premium of 74.8% to the closing price of 115 pence per AdEPT share on 7 February 2023 (the last business day before the date of the commencement of the offer period); and 77.4% to the volume-weighted average price of 113 pence per share for the three-month period ended 7 February 2023. The acquisition by Wavenet Group completed in April.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Centaur Media PLC (Centaur) (9.08% of net assets)

Cost: £3.58m Value as at 28 February 2023: £3.48m

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 progress on strategy to drive profitable revenue growth despite macro headwinds.
- ▶ Net cash balance grew to £16m which equates to a double-digit free cash flow yield.
- ▶ Another special dividend of 2p announced, which results in a pay-out per share of 6.1p in the year (previous year 1p).
- ▶ Significant director share-buying.

CENTAUR

Progress against investment case

Centaur is a multi-faceted media and IP business where we believe the sum of the parts is significantly greater than our entry price. There is value in the Flagship 4 brands which management consider 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 2023.

The group reported strong trading for the year to December 2022. This resulted in revenue of £41.6m, EBITDA margins of 20% and EBITDA of £8.5m. This puts the MAP23 firmly on track. While management highlighted that the macro conditions resulted in slowing growth in H2, the fact that it grew at all is testament to the defensive revenue model largely in subscriptions. The strong operating performance continues to translate well into cash, and net cash balances grew to £16m, allowing a 6.1p cash return in the year through normal and special dividends. This puts Centaur at an interesting juncture, with a strong net cash balance sheet and a highly cash generative business model. The special return might indicate that the board now deem excess cash as distributable, and since the business is generating a free cash flow yield of around 10%, if it doesn't re-rate and earnings don't decline, then double-digit returns are all but guaranteed from here (the usual caveats apply). We also believe in our investment thesis that the sum-of-the-parts is significantly greater than the market capitalisation, providing optionality for value realisation which is not just earnings driven.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Digitalbox PLC (Digitalbox) (4.50% of net assets)

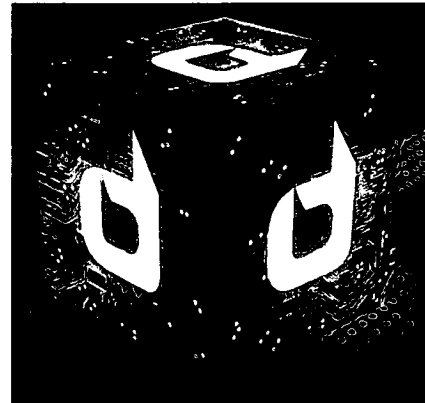
Cost: £1.13m Value as at 28 February 2023: £1.72m

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

- ▶ Increased advertiser demand for high-quality audiences on mobile.
- ▶ FY2022 delivered a strong revenue and profit year despite H2 headwinds.
- ▶ Strategy delivering acquisitions as expected and in a more favourable pricing environment.
- ▶ 2023 likely to be tougher in the face of ad-spend headwinds.



digitalbox.

Progress against investment case

The company acquired The Poke, a satirical website, in December 2022. The acquisition provides a great opportunity for Digitalbox to strengthen its position within the satire/comedy space. The Poke has over three million monthly sessions, which when combined with The Daily Mash's three million monthly sessions, will establish Digitalbox as a leading destination for online humour.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Equals PLC (Equals) (3.90% of net assets)

Cost: £1.19m Value as at 28 February 2023: £1.49m

Background

Equals Group is a technology-led international payments group augmented by highly personalised service for the payment needs of SME's, 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.
- ▶ Gross profits and adjusted EBITDA upgrades on the back of the Full Year 2022 results.
- ▶ Tight control of cost base in the face of high inflation and labour market tightness.
- ▶ Strong balance sheet.



Progress against investment case

Equals continued to outperform expectations with revenues up 58% to £69.7m. Most significantly, the KPI that we monitor – the revenue per day – was up to £342k in Q1 2023, an increase of 52% over £225k per day in Q1 2022. Ian Strafford-Taylor, the CEO, is very focused and motivated to grow Equals into one of the predominant payments/FX solutions, rivalling the big banks for service and cost. Our investment thesis here is predicated by the operational gearing achievable from the quality of revenue growth and careful management of the core cost base. We acknowledge that software driven solutions businesses require constant investment and evolution in development, which can often hamper the earnings of a small company. But here we believe that Equals has got to a scale that supports that spend, complemented by a steely eye on return on investment for development spend.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

FireAngel Safety Technology Group PLC (FireAngel) (4.96% of net assets)

Cost: £5.73m Value as at 28 February 2023: £1.90m

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

- ▶ Strong revenue performance.
- ▶ New contract wins.
- ▶ Increasing legislation driving sales.
- ▶ Supply chain challenges remain.
- ▶ Forward currency hedge.

Progress against investment case

FireAngel announced a trading update for the year ended 31 December 2022 and reported that the group delivered a resilient performance in 2022, resulting in its strongest revenue performance since 2017. Business Unit performance was strong across most territories with demand outweighing supply, driven by the tailwind of increasing legislation. Sales were up 32% to £57.5m, adjusted loss before tax reduced by 30% to £2.1m, and adjusted EBITDA was £1.6m from £0.3m the year prior.

FireAngel had some 'self-help' measures to implement which has allowed it to broadly maintain gross margins despite the headwinds. These were achieved despite low availability of higher margin products and strong input price pressures. Planned mitigations against inflation and volatile input prices began to improve performance from mid-Q2 2022 and the company delivered gross margin of c.26% in the six months to the 30 June 2022, leaving it well positioned for the historically stronger second half of the year. While impact of the global supply chain challenges improved across H2 2022, the group and its suppliers are still having to commit to purchases 12 to 15 months ahead, as opposed to a historic norm of 3 to 6 months. Changes in product and sourcing mix along with extended shipping times from Asia have impacted the level of stock held. As a result, stock at 31 December 2022 stood at approximately £8.0m, compared to an abnormally low comparable position as at 31 December 2021 of £3.7m. The board had anticipated a year end stock number closer to £7.0m.

At the end of December 2022, the group had £1.4m of cash, £4.8m of debt and an Inventory Discount Finance (IDF) facility draw down of £3.4m. The majority of the group's goods and services are currently purchased in USD. FireAngel chose to establish a level of certainty by hedging a large proportion of the USD purchases for the remainder of the year and into 2023 at an average rate of 1.14 USD/GBP. This established a level of certainty as regards cash performance in the rest of the year and into 2023. At 31 December 2022, there was a mark-to-market loss on the forward currency contracts taken out from September 2022 of £1.6m against a gain of £0.3m in 2021.

There was further pain in the form of exceptionally high Purchase Price Variance costs for securing scarce components of £1.4m which were incurred in the year compared to £0.8m in 2021. Management does not expect these costs to be a material cost going forward. FireAngel has made significant progress with its project to develop a new generation smoke alarm alongside its German partner, Techem. This is a paid-for project that will yield some exciting international opportunities in the coming year. In a highly challenging macro environment, the group has performed well and while the reported result will not be what the group had set out to achieve, the underlying numbers demonstrate the strong progress made in line with its growth ambitions.



Background to the investments (continued)

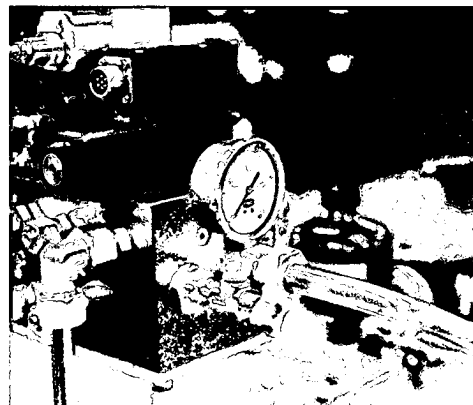
(unless otherwise stated all information provided as at 28 February 2023)

Flowtech Fluidpower PLC (Flowtech) (8.53% of net assets)

Cost: £2.60m Value as at 28 February 2023: £3.27m

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 £110m, 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

- ▶ Trading performance in line with market expectations.
- ▶ Re-structuring providing a more scalable operating cost base.
- ▶ Post-Covid revenue recovery has played out as expected.
- ▶ Impairment of goodwill in relation to legacy acquisitions.
- ▶ Higher inventory investment affected cash generation and net debt.

Progress against investment case

Full year results were in line with expectations, with revenue up 5.2% and a strong recovery in underlying earnings with a healthy positive return from the Services segment. The business continues to streamline with further cost base improvements. Net debt was higher, owed to higher working capital investment, but we expect this to reduce in due course. A detractor was the impairment of several legacy acquisitions, driven by the current interest rate environment demanding a higher cost of capital. Given these are non-cash and were made under a prior management regime and different growth strategy, this should not be too concerning.

Flowtech has been a post-Covid recovery play, and this has now come through in revenue terms. The business is now investing in its e-commerce platform which will allow it to better target existing customers and open up new revenue opportunities. From a margin perspective, we think that there are gross margin tailwinds, and the effects of the ongoing re-structuring should provide a more scalable operating cost base which can deliver improved drop through on revenue growth.

Progress against our original thesis has been slower than expected, however, there remains a significant potential upside if management can demonstrate reasonable top line growth combined with improving margins and payback from e-commerce investment. Working capital efficiencies should be well within their grasp to execute once trading conditions normalise. We remain confident and view the equity as significantly mispriced.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Hargreaves Services PLC (Hargreaves) (8.52% of net assets)

Cost: £2.56m Value as at 28 February 2023: £3.27m

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 company's significant land bank which includes planning for residential, logistics and industrial space.

Update to the investment case

- ▶ Strong trading with profitable growth across business sectors.
- ▶ Pre-tax profits up 80%.
- ▶ Strong balance sheet.
- ▶ Potential reduction in trading opportunities in the German commodity business.
- ▶ Numerous strategic catalysts available to unlock value.



Progress against investment case

Hargreaves reported interim results for the six months to 30 November 2022, and highlighted strong revenue growth in Services, leading to an overall increase of 53% year on year, primarily due to HS2. Pre-tax profit was up 80%. The group increased the dividend by 7.1% to 3.0p and the balance sheet remains robust, with £18.1m in cash, up from £8.5m in November 2021.

Hargreaves has developed a strong platform from which to create value for shareholders. The core Land and Services businesses are well positioned to generate slow and dependable growth and there are numerous strategic catalysts to unlock value, including from the renewable asset portfolio and the German associate which we expect could play out sooner rather than later.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Inspecks Group PLC (Inspecks) (4.61% of net assets)

Cost: £1.54m Value as at 28 February 2023: £1.77m

Background

A new investment in the reporting period was made in Inspecks, a company we have been following as a potential recovery trade since around the summer of 2022. Inspecks 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.



INSPECKS
— GROUP PLC —

Update to the investment case

- ▶ FY trading performance expected to be in line with revised market expectations.
- ▶ Norville losses narrowed in Q4 and further progress continues to be made.
- ▶ Operational efficiencies expected to deliver further benefits in 2023.
- ▶ Operating costs need to be well-managed.
- ▶ Net debt (excluding leases) increased by \$1.4m during the year to \$34.1m.

Progress against investment case

As Inspecks is a new position, there is little to report against our thesis at this stage. However, we broadly expect that 2023 will be a recovery year as cost savings and improved demand play through such that the current guidance is achievable, and the risk of a covenant breach is reduced. This should drive a re-rating as the business is priced on its growth and quality potential. Longer term, there remains significant upside opportunity in smart eyewear and other growth initiatives. The business has historically been valued between 15-20x EV/EBITDA, which is also in the range of its publicly quoted peers, thus we would expect a return to around this rating in a normal market.

Background to the investments (continued)

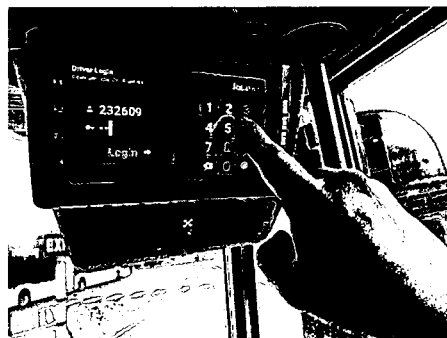
(unless otherwise stated all information provided as at 28 February 2023)

Journeo PLC (Journeo) (3.70% of net assets)

Cost: £1.13m Value as at 28 February 2023: £1.42m

Background

Another new addition to the portfolio is Journeo. Journeo 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.
- ▶ Strong and increasing levels of earnings visibility.
- ▶ Strong sales opportunity pipeline.
- ▶ Net margins expected to improve.

Journeo

Progress against investment case

We have followed Journeo for many years, not least because the ex-CEO of another portfolio position (Synectics) had become CEO at Journeo. Russ Singleton overcame some contractual and structural issues at the company and created a profitable business, ready to make acquisitions. We took a 6.6% equity stake in Journeo on the acquisition of Infotec and the subsequent £7m fundraising in late December 2022.

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, such as the c.£2.4bn Transforming Cities Fund, the c.£3bn Bus Back Better strategy, and the Williams-Shapps Plan for Rail. Post reporting period end, the group announced that Journeo has won a SaaS contract with Transport for Wales to supply a new displays Content Management System for the Welsh Bus Data Content Management System. The initial contract value is £1m and has a five-year term, with two additional one-year extensions available through to 2030. Infotec, has received a £0.7m purchase order from Network Rail for the supply of customer information displays for stations operated by Southeastern throughout the Kent region.

Journeo's products and services may be familiar – these include displays at bus stops throughout the UK (where bus due times are shown). There are also displays in railway stations – notably the new displays at both Euston and Paddington stations. Journeo has strong and increasing levels of earnings visibility with a scalable SaaS business model which has been in existence for over two years. Investments made over recent years in the group's technology have been focussed on the delivery of a cloud-based, modular, hardware-agnostic SaaS platform. The number of connections on the platform has now reached 10,000. The sales opportunity pipeline currently sits at over £50m post-acquisition. Beyond the near-term acquisition target, the company will continue to look for opportunities to strengthen and deepen the product portfolio, extend the range of services offered, and potentially add growth into adjacent market opportunities. In terms of valuation, we believe the acquisition of Infotec was undertaken at a good price (c.2.5x EV/EBITDA) and is an excellent fit – even being in the same town as the main activities of Journeo. However, we have not baked in any synergies on cost, or indeed on cross selling. Therefore, just putting the businesses together for FY 23 (E) should yield a turnover of £33m, and EBITDA of £4.2m. Net margins should improve by 2% to 9%. At our entry price, post-acquisition Journeo therefore trades on a FY 23 (E) EV/Sales multiple of 0.3x, an EV/EBITDA of 2.4x and a P/E of 5.7x. Compare this to wider peers, like Tracsis Plc which trades on a P/E of 25x, and discounting this by 30% for size and liquidity – would reflect a peer P/E of 17.5x – or 311p per share valuation, a 127% uplift to the current price of 137p.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

National World PLC (National World) (5.32% of net assets)

Cost: £2.62m Value as at 28 February 2023: £2.04m

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

- ▶ Strong trading for FY22.
- ▶ Digital revenues up 25%.
- ▶ Acquisitions increase online audience by 10%.
- ▶ Restructuring generating significant cost savings.
- ▶ Difficult consumer environment reducing advertising demand.

National World plc

Progress against investment case

National World issued a strong trading update in January 2023 which was especially welcome given the company seemed to have been completely forgotten by investors. Many had evidently assumed that the woes of other publishers were being replicated here, however, the lean operating model shone through, and the business generated a strong result. EBITDA of £9.4m and cash less loans and deferred consideration of £23.5m provides a strong balance sheet.

The business made some strategic progress in the year, with several acquisitions and investments. A \$1.25m investment into The News Movement which should provide access to new audiences through serving content via more engaging short format stories. ScoopDragon and NewsChain bring football and video - first content, respectively, into the group. Video received a lot of focus through 2022 and grew strongly, as well as providing higher yields, so it makes sense that management continue to focus on this area for growth.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

**Norman Broadbent PLC (Norman Broadbent) (equity, loan notes and interest, 1.43% of net assets)
Cost: £0.62m Value as at 28 February 2023 (including loan note interest): £0.55m**

Background

Norman Broadbent (NBB) is less than 2% of DSM but Downing client funds now hold an influential stake of almost 20% of the equity. NBB offers a bespoke mix of high - quality Search, Interim Management, Research & Insight, Assessment & Development solutions. A recognised but historically uninspiring brand, NBB 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 NBB to the next level of organic and inorganic growth.



NORMAN | BROADBENT

BOARD | SEARCH | INTERIM | CONSULTING | INSIGHT | SOLUTIONS

Update to the investment case

- ▶ Strong revenue growth and Net Fee Income (NFI).
- ▶ Highly experience management team with proven track record.
- ▶ Highest expected annual NFI and EBITDA figures since FY. 2019.
- ▶ Average fee per engagement increased by 50%.
- ▶ Economic headwinds.

Progress against investment case

Norman Broadbent issued a trading update for the three months ended 31 December 2022 and the year ended 31 December 2022 in January 2023. Over Q4, the group reported that group NFI was up 29% to £2.34m, which was up 40% compared to the average for the previous three quarters of £1.67m. The group is progressing with its plans to expand its position in Scotland and opened an office in Edinburgh ahead of plan. It has sub-let the overcapacity in its London office with income entirely offsetting cost in 2023 of the newly opened Aberdeen and Edinburgh offices.

Over the full-year, NFI was up 27% to £7.34m and EBITDA is expected to be approximately £100k, up c.£400k on FY 2021's LBITDA of £303k. The business is now on a much firmer footing and very much back to pre-pandemic levels, with the highest expected annual NFI and EBITDA figures since FY 2019.

In addition to the positive annual EBITDA, the group has been growing headcount significantly, thus building the platform for continued profitable growth in future years. This includes a number of fee generating hires made in Q4 2022 who will begin delivering revenue in Q1 2023. The quality and seniority of mandates consistently rose over 2022, with the average fee per engagement increasing by 50% over that period.

Management is aiming to deliver annual EBITDA of £1.25m in 2025 through organic growth whilst continuing to seek acquisition opportunities. The economic headwinds remain challenging; however, we have confidence that the necessary foundations are in place to enable NBB to achieve this target.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

OnTheMarket PLC (OnTheMarket) (3.77% of net assets)

Cost: £1.70m Value as at 28 February 2023: £1.44m

Background

OnTheMarket is a majority agent-owned and backed 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

- ▶ FY23 pre-close indicated that results would be in-line.
- ▶ Cash balance of £10.4m provides operating flexibility and potential for capital returns.
- ▶ Small agents sell down of shares indicates good support for the business.

Progress against investment case

OnTheMarket is a new holding and therefore there is not much to report against the investment case at this stage. However, we view the FY23 pre-close as positive, signalling per agent revenue growth which is key to our thesis. Within this we expect that new home revenue will be particularly strong as housebuilders try to sell through stock more quickly. While the economic conditions are less supportive, we view OTMPs value offering compared to the two larger portals as having particular merit since agents are more likely to reassess their business costs and return from that investment. There was a sell-down of shares as agent backers exited their lock-up period and this was lower than we expected, signalling good support for the business from its backers and customers.



Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Ramsdens Holdings PLC (Ramsdens) (6.57% of net assets)

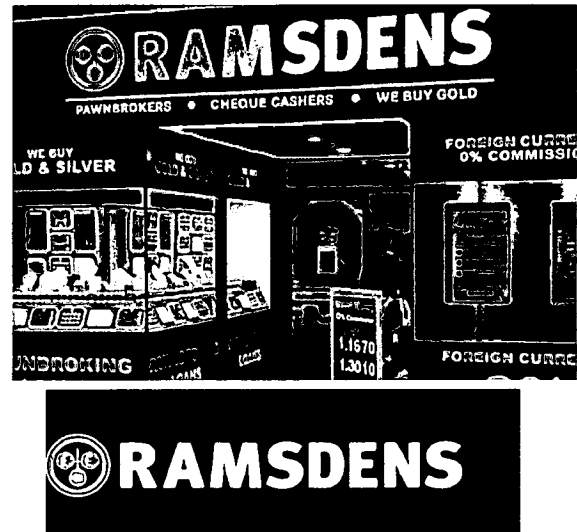
Cost: £1.90m Value as at 28 February 2023: £2.52m

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 150 stores within the UK (including 2 franchised stores) and has a growing online presence.

Update to the investment case

- ▶ Strong performance as trading conditions normalised.
- ▶ 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 issued FY22 results that were significantly ahead of FY21 as the group recovers from the impact of Covid-19. Revenues were up 62% on the year prior, and profits up 71%. FY22 profit has been driven primarily by the strong recovery in foreign currency gross profit to £12.6m as international travel returned to a reasonable level. Revenue generated by the jewellery retail segment increased by almost 50% to £27.1m, supported by strategic investments in stock, merchandising and the website. Demand for the group's pawnbroking loans grew during the year as a result of customer spending habits returning to normal and fewer alternative options for small sum short term credit being available. As at 30 September 2022, the loan book had increased by over 40% to £8.6m.

In an update on Q1 FY23 trading, the group reported further positive progress: jewellery retail gross profit increased by over 15% primarily as a result of strong premium watch sales both instore and online; volumes of foreign currency exchange remained at approximately 70% of pre pandemic levels; the pawnbroking loan book has grown further from the year-end balance of £8.6m to £9.1m; new stores have been opened in Bootle, Basildon, Croydon and a second store in Bradford, taking the store estate to 158 stores (including two franchised stores).

While Ramsdens is a consumer facing business, its diversified model has proven resilient, and we expect that a tighter consumer environment will continue to drive strong business growth for the pawnbroking segment. This is also likely to be replicated in precious metals purchasing, which is growing from a relatively low base, where consumers are likely to dispose of unwanted items to boost cash flows. Jewellery retail and FX may find the operating environment tougher, but we think that there is still some recovery trade to play through here, and scope to benefit from consumers trading down.

Margins should be stable, and we think that there is upside as the business continues to benefit from operating leverage and investment into cross-selling and a more scalable e-commerce platform. We don't expect any shocks in terms of cash flow – this is a cash generative business and investments are small and incremental. Similarly, outside of lease liabilities, the business is conservatively managed with little bank debt – of a £10 million revolving credit facility, only £1.5 million was drawn as at March, and this facility extends through to 2024, so no near-term refinance risks. Overall, we think Ramsdens is a relatively lowly priced company given the quality of management and defensiveness of the business model. We expect that it will continue to prove a solid store of value through economic uncertainty.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Real Good Food PLC (RGD) (equity, loan notes and interest, 10.54% of net assets)

Cost: £5.17m Value as at 28 February 2023 (including loan note interest): £4.04m

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

- ▶ Business has gone through material turnaround.
- ▶ Macro-headwinds continue to impact the business.
- ▶ Challenging conditions for consumer facing business.
- ▶ Efficiency measures to take out costs.



Progress against investment case

Real Good Food's latest interims reported revenue decreased by 20.1% to £15.9m and there was an EBITDA loss of £2.0m. Reduced volumes and the lag effect of passing cost increases through to customers reduced gross margins to 34%, and the ongoing availability of key ingredients has also negatively impacted performance, albeit this has begun to ease. Real Good Food is, optically, in a tough position, operating a consumer facing business, with a discretionary product. It has a structurally low margin, high commodity, and significant (unionised) labour input, and has a high level of debt. Firstly, the debt is predominantly shareholder debt – hence, we are not dictated to on an attitude to gearing from a third party. Secondly, as the company announced for its first half, a good percentage of cost increases have been passed through the chain. Thirdly, management has been working hard to take cost out of the business.

Real Good Food recently announced a trading update, noting that market conditions remain very challenging due to the perfect storm of rising costs and lower revenues. However, the Group's radical reform programme is progressing well with significant price resets and cost savings having been achieved. Further work is being done on improving manufacturing efficiency and balancing capacity to levels of demand. However, Q4 revenue was below expectations, as consumer demand and confidence were knocked by speculation in the media of a recession in the early months of 2023. As previously stated, the Board expects to report a loss for the year ended 31 March 2023, following losses in the first half and further losses in the second half. The full year benefit of the price resets and cost savings are expected to lead to a significant performance improvement in the new financial year commencing 1 April 2023. The Group has recently announced that its EBITDA is anticipated to be in the range of £2 million to £4 million, and the Group to be cash generative.

Overall, we remain positive on the company's prospects, despite what is obviously going to be a tough demand and cost environment in the immediate future. Our economic interest lies predominately in the loan notes, and we are focused on ensuring that this value is not permanently impaired and that the business is positioned to repay these plus premiums at a later date.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Synectics PLC (Synectics) (6.26% of net assets)

Cost: £3.98m Value as at 28 February 2023: £2.40m

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

- ▶ Covid recovery reorganisation yielding positive results.
- ▶ Latest financial results demonstrate significant turnaround in performance.
- ▶ Strong order book.
- ▶ New contract wins.



Progress against investment case

Synectics announced its results for the year ended 30 November 2022 and highlighted revenue was up 6.8% to £39.1m from £36.6m the previous year. The balance sheet is strong with net cash at 30 November 2022 of £4.3m, with no bank debt and undrawn bank facilities of £3.0m.

Significant cost savings have been taken out of the business, leaving a leaner, more efficient structure that is highly operationally geared. FY22 saw a substantial profit turnaround, booking profit before tax of £1.2 million versus £0.5 million in the previous year. This was accompanied by a healthy order book (at the end of November 2022) of £24.4 million. We like how Synectics measures its order book – these are real signed orders; not pipeline orders.

New contract wins over the course of the last six months include those in the oil and gas and infrastructure markets. These are all solution-based contracts at good margins. We are confident that the business can grow from here. While a recovery in the Asian gaming market may take longer, the US is returning strongly, as is investment in oil and gas which we had written off in our original thesis. This is a business which used to generate over £80 million of revenues when the oil price was strong.

We mentioned previously the share incentive plan. Its metrics are worth noting. Management need to reach a base EPS of 17.2p before any pay-out and would receive a full incentive at 24.36p EPS (starting hurdle of 11.87p). Reading this through, we believe that a fair and modest price-earnings ratio is 12-15x for this type of company – therefore implying 292p/365p per share (before valuing cash). The current share price of around 120p is therefore significantly undervaluing the future value of the business in the eyes of the board.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Tactus Holdings Limited (Tactus) (1.98% of net assets)

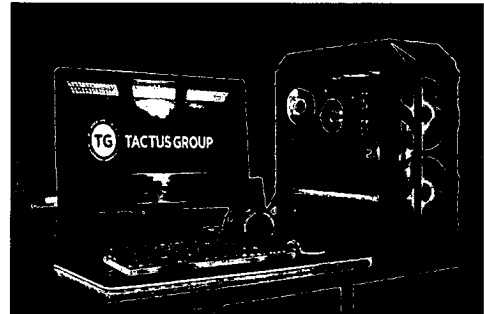
Cost: £1.00m Value as at 28 February 2023: £0.76m

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.
- ▶ Write down of carrying value given weaker trading.
- ▶ Strong cash generation driven by inventory reductions.



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 28 February 2023)

TheWorks.co.uk PLC (TheWorks) (2.26% of net assets)

Cost: £1.41m. Value as at 28 February 2023: £0.87m

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

- ▶ Performance in line with management expectations.
- ▶ Total revenue increased.
- ▶ Balance sheet strengthened.
- ▶ Positive pattern of trading.



TheWorks.co.uk

Progress against investment case

TheWorks recently issued a trading update which highlighted that despite the cost headwinds, the business delivered a resilient performance in H1 FY23 which was in line with management expectations.

The group made solid progress against its strategic objectives, with careful management of supply chain and increased consumer demand post Covid-19. Total revenue at £118.9m was up 2.4% compared with H1 FY22, and store like-for-like sales were up by 3.5%. Disappointingly, online sales declined 16.9%, although still 50% above pre-Covid levels, resulting in overall like-for-like growth of 0.6%. Net cash balance at the period end of £7.0m reflected a return to the normal pattern for the group, which typically generates cash in H2 but not in H1. The board's expectations for the overall FY23 result are unchanged, despite the recent increase in like-for-like sales, due to heightened levels of uncertainty regarding consumer spending over the remainder of the financial year.

Progress has been supported by the ongoing evolution of TheWorks proposition, including a strong performance of its improved 'Back to School' range. We have also seen significant growth in the books category, driven by an increased representation of front-list authors including Julia Donaldson and Richard Osman. The group has continued to optimise the store estate by opening seven new stores and relocating two, all of which are trading ahead of expectations. It has also launched an updated brand and relaunched its loyalty scheme, signing up 0.3m new members in the first half, a 100% increase on H1 FY22.

Background to the investments (continued)

(unless otherwise stated all information provided as at 28 February 2023)

Volex PLC (Volex) (4.09% of net assets)

Cost: £0.74m Value as at 28 February 2023: £1.57m

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

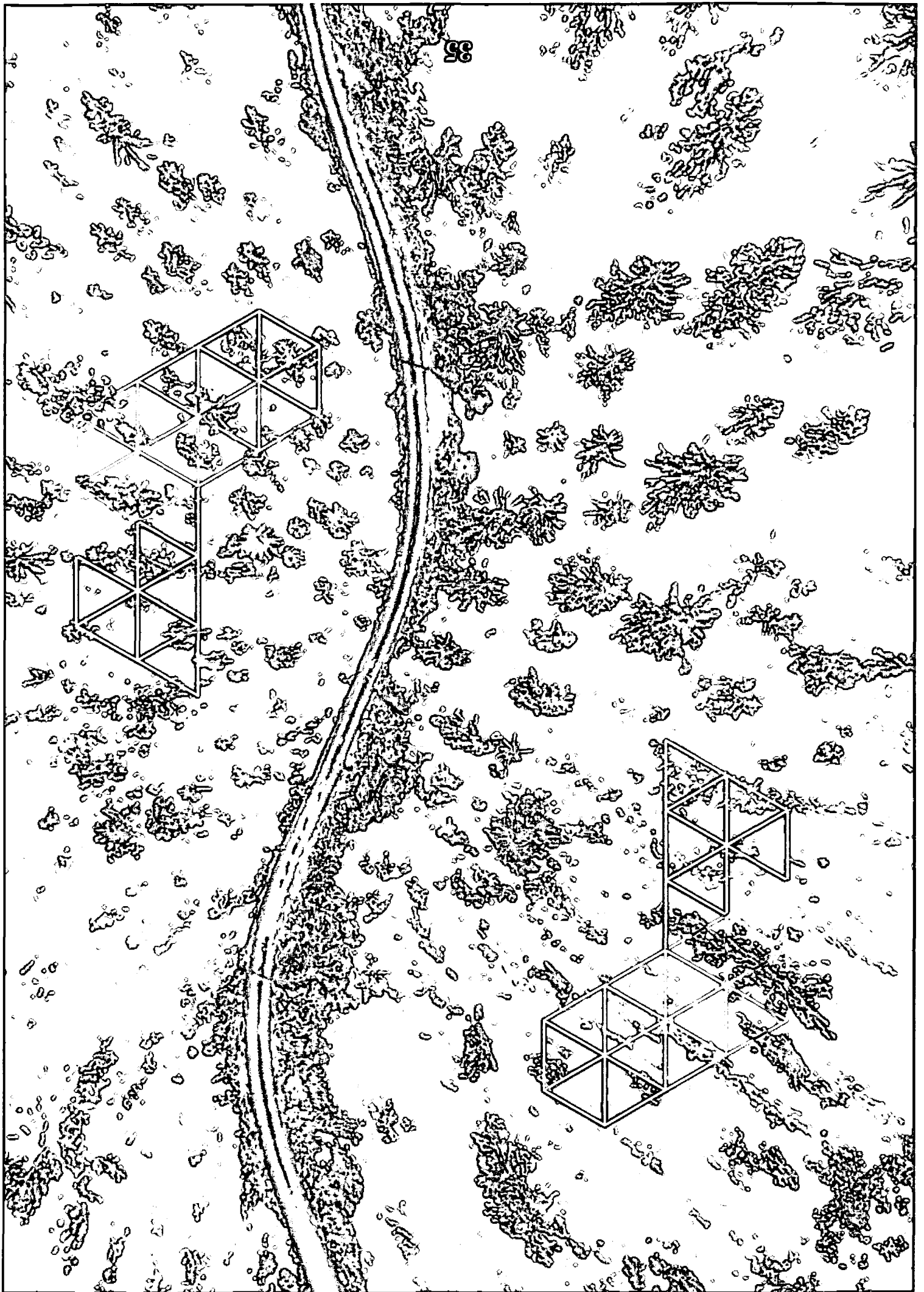
- ▶ Half year results were positive and showed good revenue growth.
- ▶ Margins expected to improve as supply chains normalise.
- ▶ Cash flow should also improve as inventory turns improve.



Progress against investment case

Volex's year end trading update was well received by the market as it seemed to alleviate two key concerns. The first was an improving margin profile after several periods of deterioration. The second, was a recovery in free cash flow as more normalised supply chains required less working capital investment. The statement also indicated a beat against market guidance and suggested a positive outlook for the current financial year.

We remain positive on Volex's prospects through the short, medium and long term. The new five-year strategy to effectively double the size of the business will create an economically significant manufacturing business, with a global footprint and exposure to several structural growth sectors.



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.

Investment team



Judith MacKenzie
Partner and Head of
Downing Fund Managers

Judith joined Downing in October 2009. Previously she was a partner at Acuity Capital, a buy-out from Electra Private Equity, where she managed AIM-quoted IHT and VCT investments and a small-cap activist fund. Prior to Acuity, Judith spent seven years with Aberdeen Asset Management Growth Capital as Co-Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in quoted and unquoted sectors. She is a non-executive director of the Quoted Companies Alliance and is an active member on boards both in the public and private arenas.



Nicholas Hawthorn
Fund Manager

Nick joined Downing in September 2015 from BP Investment Management. Prior to this, he worked for Aberdeen Asset Management and has over eight years of experience in the investment management industry. Alongside day-to-day fund management duties, Nick fulfils observer right duties on portfolio companies. He holds a MSc in Finance and Investment from Durham University and a MA in Accounting and Economics from the University of Aberdeen.



Josh McCathie
Fund Manager

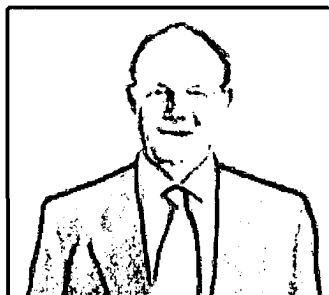
Josh joined Downing as an analyst in 2018. Previously he had worked at BRI Wealth Management where he worked in the UK Equities team, focusing on FTSE 350 companies. He is a CFA Charterholder, CISI Level 7 Chartered Wealth Manager and holds the Investment Management Certificate. Josh was named in the Citywire 2018 Top 30 under 30.



Cheryl Vickers
Portfolio Manager

Cheryl joined Downing in 2010 from Rathbones, where she gained over 12 years' experience working on VCT, EIS and IHT portfolio services. She provides portfolio support and oversight to all of the Downing Fund Managers portfolios. Cheryl graduated from Keele University and is a Chartered FCSI.

Directors' biographies



Hugh Aldous
Chairman, Chairman of the
Management Engagement
Committee

Hugh is currently a director of two UK listed public companies. He has a wealth of experience, having held numerous chairman and executive chairman positions over more than 20 years and his career includes 40 years as a director of a wide selection of companies from nationalised industries to private equity and across a range of sectors. He recently retired from the board of a US NASDAQ listed chemicals company and from the board of Polar Capital Holdings, the UK fund management group. He spent 10 years as managing partner, and latterly head of Financial Services, of Robson Rhodes (now Grant Thornton), 16 years of various appointments as a DTI Companies Act Inspector and was a member of the UK Monopolies & Mergers and Competition Commissions.



Linda Bell
Director

Linda Bell has extensive management experience leading technically based companies serving global industrial markets. She is currently a non-executive director of Fera Science Limited, a business focussed on safety, security and sustainability across the agri-food chain. Prior to her current roles she was the CEO of Phosphonic Ltd (acquired by Carbosynth Holdings Ltd in January 2017), the CEO of MIRICO Ltd, a venture capital backed company commercialising novel laser dispersion spectroscopy into industrial applications, and a former non-executive director of TOMRA Systems ASA, with an earlier career at ICI, Servomex, part of Spectris Plc, Inca Digital Printers, part of Dainippon Screen, and DS Smith. She is an Oxford graduate in Natural Sciences (Chemistry) and a DPhil in Inorganic Chemistry with an MBA from the Open University and is a Fellow of the Royal Society of Chemistry.



William Dawkins
Director

Will is an adviser and former head of the board and CEO practice of Spencer Stuart, a global executive search and leadership consulting firm, prior to which he spent 23 years in a variety of posts for the Financial Times, including foreign correspondent with postings in Brussels, Paris and Tokyo, deputy managing editor, foreign editor and later publishing editor. He is a Cambridge graduate with a master's degree in English literature from Trinity College and attended the Advanced Management Programme at INSEAD. Will is a Trustee, Director and former chair of the Evelyn Trust, a medical research grant giving charity based in Cambridge, and is a governor and director of The Perse School, Cambridge.



Robert Legget
Senior Independent Director,
Chairman of the Audit Committee

Robert has extensive industry experience, having co-founded Progressive Value Management Limited (PVML) in 2000. PVML specialises in creating value and liquidity for institutional investors out of holdings in underperforming companies. He remains as chairman of PVML and is also senior independent director of Sureserve Group plc and R&Q Insurance Holdings Limited. Robert was formerly a director of Quayle Munro Holdings plc, Triam Investors I Limited and CT Private Equity Trust plc (formerly BMO Private Equity Trust plc). He is a member of the Institute of Chartered Accountants of Scotland and is well respected for his extensive experience in creating value for shareholders.

Strategic Report

The directors present the Strategic Report of the company for the year ended 28 February 2023. The aim of the Strategic Report is to provide shareholders with the information required to assess how the directors have performed their duty to promote the success of the company during the year.

Business model

The company invests in accordance with the investment objective. The board is collectively responsible to shareholders for the long-term success of the company. There is a clear division of responsibility between the board and the investment manager. Matters reserved for the board include setting the company's strategy, implementing the investment objective and policy, capital structure, governance and appointing and monitoring the performance of service providers, including the investment manager.

As the company's business model follows that of an externally managed investment company, it does not have any employees and outsources its activities to third-party service providers, including the investment manager, who is the principal service provider.

Status of the company

The company is registered as a public limited company in England and Wales (Registered Number 10626295) and is an investment company within the terms of Sections 832 and 833 of the Companies Act 2006. Its shares are listed on the premium segment of The Official List of the UK Listing Authority and traded on the main market of the London Stock Exchange, being a regulated market as defined in Section 1173 of the Companies Act 2006.

The company has been approved by HM Revenue & Customs as an investment trust company (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 this approval will be withdrawn. The company is not a close company for taxation purposes.

As an investment company managed and marketed in the United Kingdom, the company is an Alternative Investment Fund ('AIF') under the provisions of the Alternative Investment Fund Manager's Directive ('AIFMD'). The company was also registered by the FCA as a Small Registered UK Alternative Investment Fund Manager ('AIFM') with effect from 16 March 2017.

The company currently conducts its affairs so that the shares issued by the company can be recommended by independent financial advisers to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

Section 172 Statement – Directors' duty to promote the success of the company

Companies are required to state how their directors have followed their duty to promote the success of the company, as set out in s.172 of the Companies Act 2006, and when making decisions for the long term have regard to a range of matters including:

- ▶ the likely consequences of any decisions in the long term;
- ▶ the interests of the company's employees;
- ▶ the need to foster the company's business relationships with suppliers, customers and others;
- ▶ the impact of the company's operations on the environment and community;
- ▶ the desirability of the company maintaining a reputation for high standards of business conduct; and
- ▶ the need to act fairly between shareholders of the company.

As part of its decision making, the board seeks to understand the views and requirements of the company's stakeholders. As the company has no employees, no customers in the traditional sense and delegates its day-to-day management and administration to third parties, the directors consider the key stakeholders of the company to be its current and potential shareholders, as well as third-party service providers and other advisers.

Strategic Report (continued)

Section 172 Statement – Directors' duty to promote the success of the company (continued)

In promoting the success of the company, the board's principal concern has been, and continues to be, portfolio management, which the board monitors in line with the company's objectives and the interests of current and potential shareholders. This is supported by the manager in regularly engaging with major shareholders, by producing half-yearly newsletters and monthly factsheets and reporting back to the board on developments in the portfolio.

The chairman visits, or speaks with, the larger shareholders at least twice a year and the board encourage all shareholders to attend the AGM and welcomes any other communication from shareholders.

The board has a responsible governance culture that it seeks to impart to other stakeholders, such as its service suppliers and investee companies, and it gives due regard to the expectations of its regulators. The investment manager also promotes good corporate governance at the portfolio level and supports the investee companies in improving their own reporting on such matters.

The impact of key decisions on stakeholders in the year	
The key decisions and actions during the year which have required the directors to consider applicable Section 172 factors include:	
Redemption facility and subsequent strategic review	<p>In January 2023, the board announced details regarding the cash exit facility whereby the board intends to offer shareholders a 50% share redemption opportunity in May 2024 at NAV (less costs). This facility will allow those shareholders seeking to redeem their shares an opportunity to do so.</p> <p>The board noted that should the cash exit facility be fully subscribed, and, as a result the company become sub-scale, the board intend to conduct a strategic review. The review would consider putting a continuation vote to shareholders, or alternatively, a potential roll-over into another suitable investment company.</p>
Share buyback management	<p>The board closely monitors the level of the company's share price discount to NAV and looks to manage the value through a programme of share buybacks.</p> <p>In order to seek to manage the share price discount, the board will from time to time, subject to liquidity and other considerations, buy in the company's own shares as they become available in the market. The board will keep share buybacks under review to ensure that they continue to offer the best returns for the company's long-term shareholders.</p> <p>During the period the shares traded at a discount between 11.93% and 26.98%, with the level of the discount at the year ended 28 February 2023 being 15.76%, which the board considers having been managed down to a satisfactory level.</p>

Strategic Report (continued)

Section 172 Statement – Directors' duty to promote the success of the company (continued)

The impact of key decisions on stakeholders in the year	
Change of Corporate Broker	<p>After carrying out a review of the former Corporate Broker, Shore Capital, and the boards engagement with them over the prior 5-year relationship, in June 2022 the board announced that finnCap Limited had been appointed as the company's sole Corporate Broker with effect from 29 June 2022.</p> <p>finnCap are noted to be active amongst microcaps and will therefore continue to promote the successes of the company.</p>
Communication with shareholders	<p>The board communicates with its shareholders in a number of ways including but not limited to:</p> <ul style="list-style-type: none"> - through the company's annual and half yearly reports; - regulatory announcements; - meetings with the company's major shareholders; - information on the company's website; - regular webinars; and - the Annual General Meeting. <p>The board encourages all shareholders to attend the AGM and welcomes communication from shareholders. The board is pleased to continue to hold the 2023 AGM in person at the company's registered office to facilitate this interaction. In person AGMs will continue, where possible, to allow shareholders to ask questions and hear updates from the board and investment manager.</p>
ESG considerations	<p>The board acknowledge the investment manager's close relationship with each of the portfolio companies and recognise that the investment manager can assist an investee company's approach to Environmental, Social and Governance (ESG) matters. The investment manager also recognises the importance of ESG considerations in its investment assessments and during the period appointed an ESG analyst to develop these considerations further.</p>

Strategic Report (continued)

Investment policy

The company invests in UK publicly quoted companies that are defined by the investment manager as micro-cap, reflecting a market capitalisation of under £150 million of the investee company at the time of investment. The investment manager intends to hold a concentrated portfolio of between 12 and 18 investments (when fully invested).

The investment manager:

- ▶ deploys a private-equity style diligence approach to investing, focusing on the future value of free cash flows, sustainability of margins and strength of the management team;
- ▶ takes advantage of the inefficiencies within the micro-cap market which include lack of analyst coverage;
- ▶ has the ability to invest up to 10% of the gross assets at the time of investment in one or more unquoted companies;
- ▶ procures that the company invests where analysis indicates an ability to create shareholder value of 15% compound growth per annum over a 3–7 year investment horizon;
- ▶ favours a proactive style of engagement with management, aiming to maximise shareholder value over the long term, particularly where diligence highlights a strength of management, an entry value that is a discount to the investment manager's calculation of intrinsic value, and where active engagement is likely to mitigate some of the inefficiencies presented by the micro-cap market.

The investment manager believes that this is best achieved by the company taking strategic shareholdings of between 3% and 25% of the equity of the investee company, although the company may hold larger or smaller stakes where it deems appropriate (including up to a maximum of 29% of the equity of any one company at the time of investment, but only where the company holds an additional right of conversion (e.g. option rights or convertible loan notes) that would, on exercise, result in the company holding above 25% of the equity).

It is likely that the majority of the investments held in the company's portfolio will be quoted on AIM and will typically be drawn from the constituents of the FTSE AIM All Share Index.

No single investment will represent materially more than 15% of the Gross Assets at the time of investment, save that the company may make a follow-on investment into an existing investee company where such investment may result, due to fluctuation in market conditions, in a single investment representing up to 15.5% of Gross Assets at the time of investment, where this is likely to maximise the value of the company's existing investment for shareholders.

The company's portfolio is expected to be diversified by industry and market, but stock selection will be determined by the results of extensive due diligence rather than a weighting in any particular index. However, the investment manager will not invest on behalf of the company in early-stage technology, mining and extraction companies and early-stage biotech (unless the company can see a defined route to profitability) and does not intend to invest in initial public offerings, unless in exceptional circumstances where it has a historic relationship with and an in-depth knowledge of the investee company. The company does not invest in other closed-ended investment funds.

Strategic Report (continued)

Investment policy (continued)

The company may use derivative instruments including index-linked notes, contracts for difference, covered options and other equity-related derivative instruments for efficient portfolio management, gearing and investment purposes. Any use of derivative instruments for investment purposes will be made on the basis of the same principles of risk spreading and diversification that apply to the company's direct investments, as described above, although the company would not hold more than 5% of net assets in a derivative of any single investee company. The company will not enter into uncovered short positions.

If companies in the portfolio achieve organic growth or grow through corporate activity such as acquisitions, and consequently have a market capitalisation that would place them outside the investable universe (described above), the investment manager will not be obliged to sell those holdings, but the proportion of the portfolio in such companies will be carefully monitored by the investment manager and the board so that the overall investment policy to invest in the smallest quoted or traded companies is not materially altered.

No material change will be made to the investment policy without the approval of shareholders by ordinary resolution.

Gearing

The company may deploy borrowing to enhance long-term capital growth. Gearing will be deployed flexibly up to 15% of the net asset value, at the time of borrowing. In the event this limit is breached as a result of market movements, and the board considers that borrowing should be reduced, the investment manager shall be permitted to realise investments in an orderly manner so as not to prejudice shareholders. As at 28 February 2023 the company had no borrowings (2022: £nil).

Performance

Details of the company's performance are set out in the Financial Highlights section on page 5 and the Chairman's Statement on pages 7 to 9.

A review of developments during the year, as well as information on investment activity within the company's portfolio, are included in the Investment Manager's Report on pages 10 to 15.

Results and dividend

The results of the company are set out in the Statement of Profit or Loss and Other Comprehensive Income on page 76 and analysed in the Chairman's Statement in detail on page 7, along with an analysis of the company's investment portfolio and net asset position.

The return for the year after taxation was a loss of £3.7 million (2022: gain of £2.4 million), equivalent to a loss of 7.54p per share (2022: gain of 4.71p per share). This comprised a revenue loss of £653,000 (2022: gain of £212,000), equivalent to a loss of 1.32p (2022: gain of 0.42p) per share, and a capital loss of £3.1 million (2022: gain of £2.2 million) equivalent to a loss of 6.22p (2022: gain of 4.29p) per share.

The directors are not recommending the payment of a final dividend.

Dividend policy

The company will only pay dividends on the Ordinary Shares to the extent that it has sufficient financial resources available for the purpose in accordance with the Companies Act 2006. The company has no stated dividend target.

Strategic Report (continued)

Key Performance Indicators ('KPIs')

A number of performance indicators are used to monitor and assess the company's success in achieving its objectives and to measure its progress and performance. The principal KPIs are described below:

- ▶ **Share price discount to NAV per share** – the board closely monitors the level of the company's share price discount to NAV and considers this to be an Alternative Performance Measure. During the year ended 28 February 2023, the shares traded at a discount of between 11.93% and 26.98%, with the average discount being 20.74%. The level of the discount at the year ended 28 February 2023 was 15.76% (28 February 2022: 14.84%). The board continues to work with its broker and utilises share buybacks to seek to reduce the discount to a satisfactory level.
- ▶ **Share price movements** – the company's Ordinary Share price decreased by 9.69% over the period under review. This is largely attributable to the performance of the portfolio during the period as detailed further within the Chairman's Statement and Investment Manager's Report.
- ▶ **Ongoing charges** – the ongoing charges represent the company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The board consider the ongoing charges figure to be an Alternative Performance Measure. The ongoing charges for the year ended 28 February 2023 were 1.94% (2022: 1.75%). The board considers this level to be satisfactory.

The net asset value per share is defined as an Alternative Performance Measure and the Board considers it to be the primary measure of shareholder value.

Principal and emerging risks

The company is exposed to a variety of risks and uncertainties. The Directors have carried out a robust assessment of the principal risks facing the company, as well as a review of emerging risks which may have arisen during the year, including those which could threaten its business model, future performance, solvency or liquidity.

The board maintains a risk matrix which identifies risks and enables the board to respond to risks with mitigating actions to reduce the potential impacts should any of the risks materialise. The risk matrix provides a detailed risk and internal control assessment and is the basis for the Audit Committee and the board to regularly monitor the effective operation of the controls. The risk matrix is updated on an ongoing basis, with new risks added as they are identified. Listed below is a summary of the principal and emerging risks identified by the board and the action taken to mitigate those risks.

Risk	Mitigation
Investment performance	
The investment objective of the company may not be achieved as returns are reliant on the performance of the portfolio.	<p>The company is reliant on the investment manager's investment process. The board has set investment restrictions and guidelines which the investment manager monitors and regularly reports on.</p> <p>The board monitors the implementation and results of the investment process with the investment manager. The investment manager attends all board meetings and provides the board with information including performance data, an explanation of stock selection decisions, portfolio exposure and the rationale for the portfolio composition.</p>
The company will invest primarily in the smallest UK quoted or traded companies, by market capitalisation. Smaller companies can be expected, in comparison to larger companies, to have less mature businesses, a more restricted depth of management and a higher risk profile.	The investment manager has significant experience in small-cap investing and deploys an approach that is designed to maximise the potential for the investment objective to be achieved over the longer-term.

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Investment performance	
The lasting economic consequences of the coronavirus pandemic remain unclear, however lagging performance of the UK economy has the potential to impact market conditions and depress market prices.	The company has a small, focused portfolio which allows the investment manager to work closely with each portfolio company and provide active support where it can.
<p>The price of the company's shares trade at either a discount or premium relative to the underlying NAV of its shares.</p> <p>Shareholders could become dissatisfied with a continuing discount to NAV.</p>	<p>The board actively monitors the company's share price discount or premium to the published NAV and continually engages with the company's corporate broker regarding share trading volumes, comparative data from the company's peer group and significant buyers and sellers.</p> <p>The board look to manage the value through a programme of share buybacks, subject to liquidity and other considerations, whilst seeking to broaden the interest in the company's shares through a series of marketing activities.</p>
Operational	
<p>The company relies on external service providers. In the event that these parties are unable or unwilling to perform in accordance with the terms of their appointment, this could have a detrimental impact on the company's performance.</p> <p>Disruption to the accounting, payment systems or custody records could lead to inaccurate reporting and monitoring of the company's financial position.</p> <p>The security of the company's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements are reliant on the effective operation of the control systems of the service providers.</p>	<p>Due diligence is undertaken before contracts are executed with potential service providers. The board monitors the performance of service providers together with the associated costs. The board also reviews reports on the effective operation of the internal controls of service providers.</p> <p>The company's assets are subject to a strict liability regime and in the event of a loss of financial assets held in custody, assets of an identical type or the corresponding amount must be returned unless the loss was beyond the reasonable control of the custodian.</p> <p>The board also considers the business continuity arrangements of the company's key service providers.</p> <p>The board may terminate all key contracts on normal market terms.</p>
Financial	
The company's investment activities expose it to a variety of financial risks that include market risk, liquidity risk, and credit and counterparty risk.	Further details of these risks are disclosed in Note 14 to the Financial Statements, together with a summary of the policies for managing these risks.

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Legal and compliance	
Non-compliance with investment trust eligibility conditions. The company has been accepted by HM Revenue & Customs as an investment trust, subject to continuing to meet the relevant conditions.	The investment manager monitors investment movements and the amount of proposed dividends, if any, to ensure that the relevant provisions of the Corporation Tax Act 2010 are not breached. A report is provided to the Board at each meeting.
Non-compliance with Companies Act 2006, the Alternative Investment Fund Manager's Directive ('AIFMD'), the UK Listing Rules and Disclosure & Transparency Rules and the Market Abuse Regulations, the UK adopted international accounting standards and the AIC SORP.	The company secretary and administrator, along and the company's professional advisers, provide reports to the board in respect of compliance with all applicable rules and regulations and ensure that the board is made aware of any changes to such rules and regulations. Compliance with applicable accounting standards and best practice reporting for investment trusts are also reviewed on an ongoing basis, with recommendations made to the board by the administrator.
Emerging risks	
Geopolitical risks	
The continuing conflict in Ukraine and the impact of sanctions placed on Russian businesses and individuals may have some impact on the returns of the Company.	The investment manager's approach of having a strategic involvement with the investee companies ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. Exposure is considered to be low and any direct impact on the company's performance not expected to be significant. The manager will continue to review the evolving situation as part of its ongoing activities.
Interest rate rises and Inflation	
The company's investments could be impacted negatively as a result of increasing interest rates and continued high inflation, particularly on wages and other costs.	The investment manager's close relationship with the investee companies allows it to ensure that the businesses properly assess the potential impact of increasing costs, particularly wages, and the extent to which these may or may not be able to be passed on to the end customer. The manager currently considers the net impact to be at a manageable level and continues to monitor developments closely with all investee companies.
SVB and Signature Bank collapse	
The recent failure of Silicon Valley Bank and Signature Bank could negatively impact investments who have exposure to either bank, particularly accounts held with them.	The investment manager's close relationship with the investee companies allows it to assess its exposure to SVB and Signature Bank. From a review of the portfolio, the manager has confirmed that none of the portfolio companies have accounts with either bank.

Strategic Report (continued)

Principal and emerging risks (continued)

Risk	Mitigation
Emerging risks (continued)	
Climate change	
The effects of climate change or those of changing legislation as the world looks to transition towards net zero emissions may impact the returns generated by the portfolio companies.	<p>Whilst the company itself, as an investment entity, has negligible exposure to climate change risk, the investment manager works closely with investee companies to ensure that climate change risk and transition risk is appropriately addressed. The manager believes that the risks within the current portfolio to be manageable and gives consideration to this in reviewing new investment decisions and will continue to assess developments in legislation and their potential impact on portfolio companies.</p> <p>Developments in accounting and disclosure regulations impacting the company are monitored by the investment and administration manager to ensure full compliance.</p>

Viability statement

The company is an investment trust with an objective of achieving long-term capital growth. Taking account of the company's current position, the principal risks that it faces and their potential impact on its future prospects, the directors have assessed the viability of the company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering:

- ▶ the long-term nature of the company's investment objectives and strategy;
- ▶ the company's principal risks and uncertainties that are not expected to change materially, as set out on pages 44 to 47;
- ▶ the company's business model, which should remain attractive for longer than the period to 28 February 2028;
- ▶ the relative stability of the company's expenses and liabilities;
- ▶ the outlook for the value of the company's investment portfolio;
- ▶ the cash redemption facility in May 2024; and
- ▶ the potential impact of the coronavirus pandemic on the company and its investment portfolio.

In determining the appropriate period of assessment, the directors had regard to their view that, given the company's objective of achieving capital growth, shareholders should consider the company as a long-term investment proposition. This is consistent with the general view of financial advisers that investors should consider investing in equities for a minimum of five years. Accordingly, the directors consider five years to be an appropriate time horizon over which to assess the company's viability. The directors have considered the impact of the cash redemption facility in May 2024, with further details of a strategic review detailed within the Director's Report should the facility be fully subscribed. The directors confirm that they have a reasonable expectation, on the assumption that the principal risks identified on pages 44 to 47, are managed or mitigated effectively, that the company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of assessment.

Strategic Report (continued)

Future prospects

The board's main focus is the achievement of capital growth and an attractive compound return over the long term. The future of the company is dependent upon the success of the company's investment strategy. The outlook for the company is discussed in both the Chairman's Statement on page 8 and the Investment Manager's Report on page 14.

Employees, social, community, human rights and environmental matters

The principal activity of the company is to invest in accordance with the Investment Policy set out on pages 42 and 43. The company has no employees, and all of its directors are non-executive, the day-to-day activities being carried out by third parties. Therefore, there are no disclosures to be made in respect of employees, and accordingly it has no direct social, human rights or environmental impact from its operations. In carrying out its investment activities and relationships with suppliers, the company aims to conduct itself responsibly, ethically, and fairly.

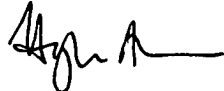
Board diversity

When recruiting a new director, the board's policy is to appoint individuals on merit. The board believes diversity is important in bringing an appropriate range of skills, knowledge and experience to the board and gives that consideration when recruiting new directors. As at 28 February 2023, there were three male directors and one female director on the board.

The Chairman's Statement on pages 7 to 9, together with the investment manager's report and portfolio information on pages 10 to 16 form part of the Strategic Report.

The Strategic Report was approved by the board on 5 May 2023.

For and on behalf of the board



Hugh Aldous
Chairman
5 May 2023

Directors' Report

The directors present their report and the audited Financial Statements of the company for the year ended 28 February 2023.

Directors

Robert Legget and William Dawkins were last re-elected at the 2020 AGM and will therefore stand for election by shareholders at the forthcoming AGM, in accordance with the provisions of the company's Articles of Association.

Hugh Aldous was re-elected in 2021 and therefore will stand for re-election by shareholders at the 2024 AGM. Linda Bell was last re-elected at the 2022 AGM and therefore will stand at the 2025 AGM, also in accordance with the provisions of the company's Articles of Association.

There were no contracts subsisting during the year under review or up to the date of this report in which a director of the company is or was materially interested and which is or was significant in relation to the company's business.

None of the directors is entitled to compensation for loss of office on the takeover of the company. None of the directors has a service contract with the company.

The board accordingly recommends the re-election of the Robert Legget and William Dawkins.

Conflicts of interest

The company's Articles of Association permit the board to consider and, if appropriate, to authorise situations where a director has an interest that conflicts, or might possibly conflict, with the company. The board has a formal system in place for the directors to declare situations for authorisation by those directors not interested in the situation. Any situations considered and any authorisations subsequently given are appropriately recorded.

The board believes that the system it has in place for reporting, considering, and recording situations where a director has an interest that conflicts, or might possibly conflict, with the company operates effectively and operated effectively during the period under review.

Directors' remuneration report and policy

The directors' remuneration report is set out on pages 63 to 66. An advisory ordinary resolution to approve this report will be put to shareholders at the company's forthcoming AGM. The company is also required to put the director's Remuneration Policy to a binding shareholder vote every three years. The company's Remuneration Policy was last put to shareholders at the AGM in 2021, therefore, an ordinary resolution to approve the policy will next be put to shareholders at the 2024 AGM.

Directors' responsibilities

The directors' responsibilities in preparing these Financial Statements are noted on page 67.

Investment management and administration

Management

The company's investment manager is Downing LLP ('the investment manager'). The investment manager is responsible for providing management services to the company in accordance with the company's investment policy and the terms of the management agreement dated 23 March 2017. The management fee is payable monthly in arrears and is equal to one twelfth of 1% of the market capitalisation of the company, calculated on the last business day of each month. Further details are provided in note 4 on page 84. Downing LLP has agreed to rebate any management fee payable in order for the company to maintain an ongoing charges ratio of 2% or lower. The board believes that the current fee structure is appropriate for an investment company in this sector.

The Investment Management Agreement is terminable by the company, or the investment manager, providing not less than six months' written notice.

Directors' Report (continued)

Investment management and administration (continued)

Company secretarial and administration

Downing LLP was appointed as administrator under an administration agreement ('the Downing LLP Administration Agreement') with effect from 1 April 2020. Grant Whitehouse, a Downing LLP partner, was appointed as company secretary on the same date.

The administrator provides general fund valuation, accounting and investment operation services to the company, AIFM support services and company secretarial services for a total minimum annual fee of £75,000 (exclusive of VAT where applicable) plus 0.01% of net assets.

The Downing LLP Administration Agreement is terminable by the company, or the administrator, providing not less than six months' written notice.

Custodian

The Northern Trust Company has been appointed as custodian pursuant to the Custody Agreement. The Custody Agreement may be terminated by either party giving 30 days' written notice.

The custodian receives a safe-keeping fee and transaction fees which vary by market, subject to a minimum fee of £7,500 per annum.

Registrar

Computershare Investor Services PLC has been appointed as registrar to the company under the Registry Services Agreement. The Registrar is entitled to a fee calculated on the basis of the number of shareholders and the number of transfers processed. The Registry Services Agreement may be terminated on not less than six months' notice.

The Registrar is also entitled to reimbursement of all disbursements and out of pocket expenses.

Appointment of the investment manager

The board, through the Management Engagement Committee, considers arrangements for the provision of investment management and other services to the company on an ongoing basis, and a formal review is conducted annually. As part of this review, the board considers the quality and continuity of individuals responsible for the company's affairs, the investment process and the performance achieved. The specialist nature of the company's investment remit is, in the board's view, best served by Downing LLP, who have a proven track record in small cap investing.

It is the opinion of the directors that the continued appointment of the investment manager is in the interests of shareholders as a whole.

Change of control

There are no agreements to which the company is a party that might be affected by a change in control of the company.

Directors' Report (continued)

Exercise of voting rights in investee companies

The exercise of voting rights attached to the company's portfolio has been delegated to the investment manager, whose voting policy states:

- ▶ We intend to vote at all shareholder meetings of companies in which our clients are invested. In cases where there are significant obstacles to voting such as share-blocking or requirements for a power of attorney, we will review the resolutions to assess the extent of the restrictions on voting against the potential benefits.
- ▶ We will vote in favour of proposals which we expect to enhance shareholder value, and on routine issues where we are supportive of a company's management.
- ▶ We will vote against proposals which we believe may damage shareholders' rights or economic interests.

In all situations the economic interests of our clients will be paramount.

Further details of the investment manager's Proxy Voting and Engagement Principles may be found at www.downingstrategic.co.uk.

Results and dividends

	£'000	Pence per share
Loss for the year ended 28 February 2023	(3,735)	(7.54)
Dividends paid during the year ended 28 February 2023: 15 July 2022	149	0.30

The directors are not recommending the payment of a final dividend.

Going concern

The Financial Statements of the company have been prepared on a going concern basis.

On 11 March 2020, the World Health Organisation declared the outbreak of a strain of novel coronavirus disease, COVID-19, a global pandemic. This resulted in significant correction in global markets in 2020, followed by a gradual recovery in many markets over the period since. Whilst the lasting economic impact of the pandemic remains unclear, the board and investment manager are pleased with how the investee companies dealt with the challenges incurred by the pandemic.

The continued conflict in Ukraine and the impact of sanctions placed on Russian businesses and individuals recently passed its one-year anniversary. The board notes the investment manager's approach of having a strategic involvement with the investee companies which ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments. Exposure is considered to be low and any direct impact on the company's performance is not expected to be significant. The manager will continue to review the evolving situation as part of its ongoing activities.

The market volatility observed during the course of the pandemic, continued high inflation, increasing interest rates and the Ukrainian conflict has been taken into account, in addition to the board's more routine considerations, in reviewing the company's budget, including the current financial resources and projected expenses for the next 12 months, together with its medium-term plans.

The directors consider that the company is financially sound and has adequate resources to continue in operational existence for the foreseeable future, being a period of at least 12 months from the date on which these Financial Statements are approved. In reaching this conclusion, the directors have given particular regard to the company's ability to meet its obligations as they fall due and the liquidity of the portfolio. As a result of the going concern review noted above, the directors consider that it is appropriate to adopt the going concern basis for these financial statements.

The board's review of the company's longer-term viability is also set out in the viability statement, on page 47.

Directors' Report (continued)

Share capital

Details of the company's issued share capital are given in note 12 on page 87. The Ordinary Shares carry the right to receive dividends and have one voting right per Ordinary Share. There are no restrictions on the voting rights of the Ordinary Shares. The company also has one non-redeemable preference share in issue with no voting rights. There are no shares which carry specific rights with regard to the control of the company.

Substantial share interests

As at 28 February 2023 the company had received notification, in accordance with the FCA's Disclosure and Transparency Rule 5.1.2R, of the following interests (by virtue of being the beneficial owner or managing the shares on behalf of a third party) in 3% or more of the voting rights attaching to the company's issued share capital.

	Number of Ordinary Shares	% of total voting rights	% of issued share capital
Foresight Group LLP	10,388,816	21.1%	20.1%
Premier Milton Group plc	5,220,253	10.6%	10.1%
EQ Investors Limited	4,100,624	8.3%	7.9%
William Black	2,505,000	5.1%	4.8%

Since the year end, the company has not been informed of any changes to the notifiable interests between 28 February 2023 and the date of this report.

Share issues

During the year, following the passing of a resolution at the General Meeting on 20 February 2023, the Board of Directors allotted one new non-redeemable Preference Management Share with no voting rights.

The current authority to issue new Ordinary Shares or sell Ordinary Shares from treasury for cash was granted to the directors on 11 July 2022. The directors are proposing that their authority to issue new Ordinary Shares or sell shares from treasury for cash be renewed at the forthcoming AGM. The company will be seeking to renew the authority to allot new Ordinary Shares or sell from treasury Ordinary Shares representing up to 5% of the company's issued Ordinary Share capital (excluding those shares held in treasury).

Share repurchases and discount management

The directors will consider repurchasing Ordinary Shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between the supply and demand for Ordinary Shares. Purchases of Ordinary Shares will be made at the discretion of the board within guidelines established from time to time and regularly reviewed by the board. Any such purchases will be funded from available cash resources of the company at prices below the relevant prevailing NAV (cum-income) per Ordinary Share.

Ordinary Shares purchased by the company may be held in treasury or cancelled. During the year, the company purchased 1,225,546 of its own shares at an average price of 66.29p per share. All shares repurchased during the year are now held in treasury.

The directors recognise that taking steps to keep the discount of the company's share price to its underlying NAV (per Ordinary Share) competitive with its peer group is in the best interest of the company's shareholders. The directors closely monitor the level of the discount and take steps to manage it through share buybacks, subject to liquidity and other considerations.

Directors' Report (continued)

Treasury shares

The company may hold Ordinary Shares acquired by way of market purchases in treasury. The company normally intends to hold less than 10% of the issued Ordinary Shares at any time in this way. During the period, 3,815,697 Ordinary Shares held in treasury were cancelled. As at 28 February 2023, the company held 2,557,706 Ordinary Shares in treasury, or 5.2% of the company's Ordinary Shares in issue.

Ordinary Shares held in treasury may subsequently be cancelled or sold for cash. No Ordinary Shares will be sold at a price less than the NAV (cum income) per existing Ordinary Share at the time of their sale.

Redemption facility

The board has indicated its intention to offer a 50% share redemption point in May 2024 ("Cash Exit Facility"). The Cash Exit Facility will enable shareholders to redeem or have a matched sale for up to 50% of their holding. To effect the redemption and calculate the relevant redemption price, the directors expect to use the Redemption Pool basis as provided for in the company's Articles of Association. The costs of that will be borne by the Redemption Pool and be deducted in arriving at the redemption price.

Should the Cash Exit Facility be fully subscribed and, as a result, the Company becomes sub-scale, the Board intends to conduct a strategic review (the "Strategic Review"). This review would consider putting to shareholders a continuation vote, or, alternatively, a potential roll-over into another suitable investment company, possibly coupled with a cash exit. If a continuation vote were proposed and not passed, the Company would be placed into a wind down strategy with the objective of realising the remainder of the Company's portfolio in an orderly manner.

Streamlined Energy and Carbon Reporting (the 'SECR')

As the company has no employees and primarily conducts its business at the London office of the investment manager and administrator, Downing LLP, the company is not directly responsible for the consumption of electricity and gas in the UK, nor is the company directly responsible for greenhouse gas emissions related to transport in the UK. As the company did not consume more than 40,000 kWh of energy during the year ended 28 February 2023, it has nothing to report under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Global greenhouse gas emissions

As the company has no employees, does not own or lease property and delegates its day-to-day management and administration to third parties, the company has no greenhouse gas emissions to report from its operations, nor does it have direct responsibility for other emission producing sources. As a result, the company has nothing to report under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

Modern Slavery Act 2015 ('the MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation.

As an investment vehicle, the company does not have any employees or provide goods and services in the normal course of business. Accordingly, the directors consider that the company is not required to make a slavery and human trafficking statement under the MSA.

Articles of Association

Any amendments to the company's Articles must be approved by special resolution.

Directors' Report (continued)

Annual General Meeting

This year's AGM will take place on 6 July 2023 at 12:00pm at Downing's office at 6th Floor, St Magnus House, 3 Lower Thames Street, London EC3R 6HD. Shareholders intending to attend the meeting are requested to register by sending an email to dsmagm@downing.co.uk stating that you wish to register for the AGM.

The notice of the AGM is set out on page 98 of this report and notes in respect of special business to be proposed at the meeting on page 97.

Corporate governance

Full details are given in the Corporate Governance Statement on pages 55 to 59. The Corporate Governance Statement forms part of this Directors' Report.

Audit information

As required by Section 418 of the Companies Act 2006 each of the directors who held office at the date of approval of this Directors' Report confirm that, so far as they are aware, there is no relevant audit information of which the company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, BDO LLP, has indicated its willingness to continue in office. Resolutions to reappoint BDO LLP and to authorise the Audit Committee to determine their remuneration for the year ended 28 February 2024 will be proposed at the forthcoming AGM.

Statement as to disclosure of information to auditor

The directors in office at the date of the report have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors has confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditor.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The directors confirm that there are no disclosures to be made in this regard.

By order of the board



Grant Whitehouse
Company Secretary
5 May 2023

Corporate Governance Statement

This report, which is part of the Directors' Report, explains how the board has addressed its responsibility, authority and accountability during the year under review.

The board has considered the principles and recommendations of the 2019 Association of Investment Companies Code of Corporate Governance ("AIC Code"). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the 2018 UK Corporate Governance Code ("UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The AIC Code has been endorsed by the Financial Reporting Council (FRC), meaning that by reporting against the AIC Code, the company is able to meet its obligations in respect of the UK Code (and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules).

As investment trust companies differ in many ways from other listed companies, the board considers that reporting against the principles and recommendations of the AIC Code will provide better information to shareholders.

Statement of compliance

The board has made the appropriate disclosures in this report to ensure that the company meets its continuing obligations. It should be noted that, as an investment trust, most of the company's day-to-day responsibilities are delegated to third parties, the company has no employees, and all of the directors are non-executive. Therefore, not all of the provisions of the UK Code are directly applicable to the company.

The board considers that the company has complied with the provisions and recommendations of the AIC Code for the year ended 28 February 2023.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adapts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

Information on how the company has applied the principles of the AIC Code is set out below.

The board

The board is collectively responsible for the success of the company. It is accountable to shareholders for the direction and control of all aspects of the company's affairs and is ultimately responsible for framing and executing the company's strategy and closely monitoring risks.

The board aims to run the company in a manner that is responsible and ensures engagement with investors. The directors are committed to maintaining high standards of financial reporting, transparency and business integrity.

The board currently consists of four non-executive directors and all directors are considered to be independent of the investment manager. The directors' biographies, including details of their other significant commitments, are provided on page 38. The biographical details demonstrate that the directors possess a breadth of investment, commercial and professional experience, and a wide range of business and financial expertise relevant to the stewardship of the company.

As stated in the AIC Code, the chair of an investment company presides over a board which does not have a chief executive or other executive directors. The directors consider that the chairman was independent on appointment and continues to be independent.

Corporate Governance Statement (continued)

Delegation of responsibilities

The Investment Management Agreement between the company and Downing LLP sets out the matters delegated to the investment manager, which include the management of the company's assets and the exercise of voting rights attached to the securities held in the portfolio. Further details of the terms of the agreement are set out on pages 49 and 50. The review of the investment manager's performance is an ongoing duty and responsibility of the board, which is carried out at every board meeting. In addition, a formal review is undertaken annually, details of which are set out in the section concerning the company's Management Engagement Committee, on page 50.

The provision of accounting, company secretarial and administration services has been delegated to Downing LLP under the terms of the Administration Agreement, with effect from 1 April 2020. The terms of the agreement are summarised on page 50.

The assets of the company have been entrusted to the custodian for safekeeping. The custodian is The Northern Trust Company. The address at which the business of the custodian is conducted is given on page 96.

A formal schedule of matters reserved to the board for decision has been approved. This includes monitoring of the company's investment objectives and policy, its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third-party service providers, review of key investment and financial data and the company's corporate governance and risk control arrangements.

Internal control

The board has established an ongoing process for identifying, evaluating, and managing the significant risks faced by the company. The process conforms to the recommendations of the FRC's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and is subject to regular review by the board. The board is responsible for the company's system of internal controls and for reviewing its effectiveness. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

The board maintains a risk matrix, which provides a detailed risk and internal control assessment and is the basis for the Audit Committee and the board to regularly monitor the effective operation of the controls. The risk matrix is updated on an ongoing basis, with new risks added as they are identified. The risk matrix covers all material financial, operational and legal and compliance controls and risk management systems.

Investment management, custody of assets and all administrative services are provided to the company by the investment manager, custodian, and administrator, respectively. The company monitors the services provided by these service providers and the operating controls established by them.

The board, through the Audit Committee, has reviewed the effectiveness of the company's system of internal controls for the period under review and to the date of this report. During the course of this review, no significant failings or weaknesses were identified.

As the company's investment management, administration and custodial activities are carried out by third party services providers, the board does not consider it necessary to have an internal audit function or whistleblowing procedures. The Audit Committee reviews annually the whistleblowing procedures of the investment manager and the administrator.

Financial reporting

The statement of directors' responsibilities in respect of the Annual Report and Financial Statements is set out on page 67, the report of the Independent Auditor on page 72 and the statement of going concern on page 51.

Corporate Governance Statement (continued)

Board structure and management

The board meets on a quarterly basis to review investment performance, financial reports and other reports of a strategic nature. Board or board committee meetings are also held on an ad hoc basis to consider matters as they arise. Key representatives of the investment manager, and the company secretary, attend each board meeting. The investment manager, company secretary and the board have a constructive and co-operative relationship. Communication between meetings is maintained between the board, investment manager, company secretary and other service providers.

The attendance record for each scheduled meeting held during the period under review is set out below

Director	Year ended 28 February 2023					
	Meetings of the Board		Audit Committee Meetings		Management Engagement Committee Meetings	
	Number held	Number attended	Number held	Number attended	Number held	Number attended
Hugh Aldous	4	4	3	3	1	1
Robert Legget	4	4	3	3	1	1
Linda Bell	4	4	3	3	1	1
William Dawkins	4	4	3	3	1	1

Role of the chairman

With the support of the company secretary, the chairman sets the agenda for meetings, manages the meeting timetable and facilitates open and constructive dialogue both during and between meetings.

Directors' appointment, retirement and succession

Details on the appointment, retirement and rotation of directors are set out in the Directors' Report on page 49.

The board's individual independence, including that of the chairman, has been considered and all directors are considered independent in both character and judgement. This independence allows all of the directors to sit on the company's various committees.

The board's view on tenure is that length of service is not necessarily an impediment to independence or good judgement and does not therefore have a formal policy requiring directors to stand down after a fixed period. It considers that a long association with the company and experience of a number of investment cycles is valuable and does not compromise a director's independence.

Appointments will be reviewed as part of the regular board performance evaluations. Directors must be able to demonstrate their commitment, including in terms of time, to the company. The board will seek to ensure that it is well balanced and refreshed regularly by the appointment of new directors with relevant skills and experience.

The board has appointed Robert Legget as Senior Independent Director in accordance with the provisions of the AIC Code. He leads the evaluation of the performance of the chairman and is available to shareholders if they have concerns that cannot be resolved through discussion with the chairman.

Directors' induction training and development

When a director is appointed, he or she will be offered an induction programme, organised by the investment manager, and will be provided with key information on the company's policies, regulatory and statutory requirements, internal controls and the responsibilities of a director.

Corporate Governance Statement (continued)

Board structure and management (continued)

Directors' induction training and development (continued)

Directors are encouraged to keep up to date with industry developments and attend training courses on matters directly relevant to their involvement with the company. The directors receive regular briefings from the company secretary regarding any proposed developments or changes in applicable laws and regulations which could impact the company.

Provision of information and support

There is an agreed procedure for directors, in the furtherance of their duties, to take independent professional advice, if necessary, at the company's expense. All directors have access to the company secretary, who is responsible for ensuring compliance with applicable laws and regulations.

The chairman, with the assistance of the company secretary, ensures that the directors receive accurate, timely and clear information. All directors receive appropriate documentation in advance of each board and committee meeting, including detailed briefings on all appropriate matters, to support the directors in discharging their duties effectively.

The appointment and removal of the company secretary is a matter for the whole board.

Performance evaluation

The board undertakes an annual self-evaluation of its performance, that of its committees and individual directors, including the chairman. The reviews were led by William Dawkins, in the case of the board, and the relevant chair for each committee. Each committee chair, assisted by the company secretary, determined the scope and format for the review, which was predominantly through questionnaires and focused discussions. There were no matters of concern requiring corrective action arising from the evaluation process and it was agreed that the composition of the board, at that time, reflected a suitable mix of skills and experience, and that the board as a whole, the individual directors and its committees were functioning effectively.

Directors' liability insurance

The company provides director's and officer's liability insurance, giving appropriate cover for legal action brought against its directors, and has also agreed to indemnify directors in circumstances where they are not considered to be culpable. The indemnity, which is a qualifying third-party indemnity provision for the purpose of the Companies Act, is for the benefit of all of the company's current directors.

Board committees

The board has delegated authority to the committees detailed below and has put in place terms of reference for each committee, which are available on the company's website and from the registered office.

Remuneration committee

The company's policy on directors' remuneration, as well as the details of the remuneration of each director, is set out in the Directors' Remuneration Report on pages 63 to 66. As stated in the Directors' Remuneration Report, the full board determines the level of directors' fees and, accordingly, there is no separate remuneration committee.

Nomination Committee

As the board is small and all of the directors are non-executive, a separate nomination committee has not been established. The full board will review its structure and composition. Appointments of new directors will be made on a formalised basis, with the board agreeing the selection criteria and the method of selection, recruitment and appointment. Board diversity, including gender, will be taken into account in establishing the criteria.

Audit Committee

The Audit Committee, which is chaired by Robert Legget, consists of all the directors of the company. Further details are provided in the Report of the Audit Committee on pages 60 to 62.

Corporate Governance Statement (continued)

Board committees (continued)

Management Engagement Committee

The company's Management Engagement Committee comprises all directors and is chaired by Hugh Aldous. The Committee considers the performance, terms, fees and other remuneration payable to the investment manager, the administrator and other service providers. Annually, it reviews the appropriateness of the investment manager's continued appointment, together with the terms and conditions of the Investment Management Agreement.

Shareholder relations

The board is committed to ensuring that there is open and effective communication with the company's shareholders. The investment manager and the company's broker maintain regular dialogue with major shareholders and provide the board with reports and feedback.

All shareholders are encouraged to attend and vote at the company's Annual General Meeting. The board, including the chairman, and the investment manager will be available at the Annual General Meeting to discuss issues affecting the company and to answer any questions. The Notice of Annual General Meeting and any related papers are sent to shareholders at least 20 business days before the meeting.

Shareholders may contact the board through the investment manager or the office of the company secretary. The contact details are given on page 96.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's Statement on pages 7 to 9, the Investment Manager's Report on pages 10 to 15, the Strategic Report on pages 39 to 48 and the Directors' Report on pages 49 to 54.

The financial position of the company, its cash flows, liquidity position and borrowing facilities are shown in the Statement of Financial Position on page 78 and the Statement of Cash Flows on page 79. In addition, note 14 to the financial statements includes the company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments, and its exposures to credit risk and liquidity risk.

The board is satisfied that the company has adequate resources to continue in operation for at least twelve months from the date of approval of these financial statements. For this reason, the board believes that the company continues to be a going concern and that it is appropriate to continue to apply the going concern basis in preparing its financial statements.

Bribery Prevention Policy

The company has zero tolerance towards bribery and is committed to carrying out business fairly, honestly and openly. The board takes its responsibility to prevent bribery seriously and its service providers are contacted in respect of their anti-bribery policies.

Criminal Finances Act 2017

The board has a zero-tolerance approach to the facilitation of tax evasion.

For and on behalf of the board



Hugh Aldous
Chairman
5 May 2023

Report of the Audit Committee

The company has established a separately chaired Audit Committee that meets at least twice a year and operates within written terms of reference detailing its scope and duties.

Composition

Given that the board is small, it is considered appropriate for all of the directors to sit on the Audit Committee, including the chairman of the company. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the committee. The chairman of the Audit Committee, Robert Legget, and chairman of the Board, Hugh Aldous, both have recent and relevant financial experience and the Audit Committee as a whole has experience relevant to the sector.

Role of the Audit Committee

The role of the Audit Committee is to assist the board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the auditors. The Audit Committee formally reports to the board.

Responsibilities

During the period, the principal activities of the Audit Committee included:

- ▶ considering and recommending to the board for approval the contents of the half-yearly and Annual Report and Financial Statements and considering the quality of the Independent Auditor's Report thereon;
- ▶ reviewing the appropriateness of the company's accounting policies;
- ▶ following the completion of the audit, the committee will review the effectiveness of the external audit process, the quality of the audit engagement partner, the audit team and based on the review will make a recommendation to the board on the re-appointment of the auditor;
- ▶ reviewing and approving the external auditor's plan for the financial period, with a focus on areas of audit risk and the consideration of the appropriateness of the level of audit materiality;
- ▶ considering the audit and non-audit services fees payable to the external Auditor and the terms of their engagement; and
- ▶ reviewing the adequacy of the internal control systems and evaluating the need for an internal audit function as set out in the Corporate Governance Statement on page 56.

The fees paid to the external Auditor are set out in note 5 on page 84.

Non-audit services

All requests for services to be provided by the external auditor will be submitted to the Committee in order to ensure that the scope and nature of the proposed work does not affect the auditor's independence or objectivity and will be determined on a case-by-case basis.

The Auditor did not provide any non-audit services during the year.

Change of auditor, auditor appointment and tenure

The committee reviews the scope and results of the external audit, its effectiveness and cost effectiveness and the independence and objectivity of the external auditor. In the opinion of the committee, the auditor is independent of the company. The committee also has primary responsibility for making recommendations to the board on the re-appointment and removal of the external auditor.

Following a formal audit tender process, the appointment of BDO LLP as auditor was formalised in November 2019, with notification being sent to all shareholders in accordance with the Companies Act. Including the audit of the company's financial statements for the year ended 28 February 2023, BDO LLP have acted as external auditor for four accounting periods.

Report of the Audit Committee (continued)

Change of auditor, auditor appointment and tenure (continued)

BDO LLP will be required to re-tender, at the latest, by 2030. Due to the short period since the appointment of the auditor, it is not considered appropriate to review the auditor's succession at this juncture. The audit partner for the year under review is Neil Fung-On, who is in the role for the fourth year of a maximum five-year term.

Representatives of the company's auditor attend the Audit Committee meeting at which the draft Annual Report and Financial Statements are considered, in addition to engaging with the directors as and when required.

Having reviewed the performance of BDO LLP, including assessing the quality of work, timing of communications and work with the investment manager, the committee has considered it appropriate to recommend the auditor's reappointment. The board is in support of this recommendation and a resolution will be put to shareholders at the forthcoming AGM.

Significant matters considered in preparing the Annual Report and Financial Statements

During the year, the Audit Committee considered a number of significant matters and key audit areas in respect of the Annual Report and Financial Statements. The Audit Committee reviewed the external audit plan at an early stage and concluded that the key audit areas had been identified and that suitable procedures had been put in place to obtain reasonable assurance that the Financial Statements as a whole would be free of material misstatements. The table below sets out the areas identified, and the steps taken to minimise the audit risk in each area.

Significant matter/key audit area	Mitigation
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting disclosed in Note 2, on pages 81 to 83. Controls are in place to ensure that quoted prices are accurately reflected in the company's records on a daily basis. In the case of unquoted investments, valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation ('IPEV') Guidelines and detailed valuation assessments are provided to the auditor on a timely basis. Existence of the portfolio is verified through regular reconciliations to the custodian's records. The custodian remains responsible for the oversight of the custody of the company's assets.
Recognition of investment income	The board relies on the administrator and the investment manager to calculate and record income accurately, and takes comfort from both the control environment in respect of income recognition and the fact that the information required in order for income to be calculated correctly is made public by the investee companies. The board reviews income forecasts and receives explanations from the investment manager for any variations or significant movements from previous forecasts. The board also considers the recoverability of accrued income. Subjective elements of income such as special dividends have been reviewed by the board to agree the accounting treatment.

Report of the Audit Committee (continued)

Significant matters considered in preparing the Annual Report and Financial Statements (continued)

Significant matter/key audit area	Mitigation
Maintenance of investment trust status	The investment manager and administrator have reported to the Audit Committee to confirm continuing compliance with the requirements for maintaining investment trust status. Compliance is also discussed with the auditor as part of the audit process.
Impact of coronavirus pandemic	<p>The impact of the coronavirus pandemic on global markets was first observed in March 2020. Since then, there have been a number of challenges for business in the UK and around the world, as governments sought to contain rising infection numbers.</p> <p>The UK Government has now removed all of the COVID restrictions that have previously been in place for the prior three years, however a new strain resulting in a spike in infections could result in the reimplementation of restrictions. The investment manager has reported to board and Audit Committee regularly and in detail, with additional consideration of the challenges brought about by the pandemic and how the investee companies have adapted their plans and operations.</p> <p>The Audit Committee has worked with the Investment and administration manager to ensure that appropriate disclosures have been made in the Annual Report in respect the risks faced by the company and how these could impact its outlook and prospects.</p>
Impact of the continued conflict in Ukraine and additional sanctions	<p>The Audit Committee notes the investment manager's approach of having a strategic involvement with the investee companies which ensures that the manager is well placed to assess the exposure of the business to the Ukraine conflict and associated developments.</p> <p>The Audit Committee will continue to review the evolving situation and risks faced by the company as they develop.</p>
Impact of rising interest rates and inflation	<p>As a result of the investment manager's close relationship with the investee companies, the manager ensures that businesses properly assess any potential impact and the extent to which these may be minimised.</p> <p>Working alongside the investment manager, the Audit Committee considers the net impact to be at a manageable level and shall continue to monitor developments on the portfolio.</p>

Conclusions in respect of the Annual Report and Financial Statements

Having taken all available information into consideration and having discussed the content of the Annual Report and Financial Statements with the investment manager, company secretary and other third-party service providers, the Audit Committee has concluded that the Annual Report and Financial Statements for the year ended 28 February 2023 as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's position, performance, business model and strategy, and has reported these findings to the board. The board's conclusions in this respect are set out in the statement of directors' responsibilities on page 67.

Robert Legget

Chairman of the Audit Committee

5 May 2023

Directors' remuneration report

The board presents the directors' remuneration report for the year to 28 February 2023, which has been prepared in accordance with the requirements of Sections 420-422 of the Companies Act 2006 ('the Act') and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, as amended ('the Regulations').

By law, the company's auditors are required to audit certain disclosures made in its Annual Report. Where disclosures have been audited, it is indicated as such. The Auditor's opinion is included in the Independent Auditor's report on pages 68 to 74.

As the company has no employees and all of the directors are non-executive, the board has not established a separate remuneration committee. The board, as a whole, fulfils the function of the remuneration committee and may amend the level of remuneration paid to individual directors within the parameters of the remuneration policy.

The Directors' Remuneration Report is subject to an annual advisory vote and an ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM.

Directors' Remuneration policy

There have been no changes to the remuneration policy during the financial year under review and no changes are proposed for the year ending 28 February 2024. The Remuneration Policy was approved by shareholders at the AGM in 2021 in accordance with Section 439A of the Companies Act 2006. The law requires that the Remuneration Policy is subject to a triennial binding vote, therefore an ordinary resolution to approve the policy will next be put to shareholders at the 2024 AGM.

Directors' Remuneration Policy terms

-
- 1) Remuneration consists of a fixed fee each year and the directors of the company are entitled to such rates of annual fees as the board at its discretion determines.
-
- 2) In accordance with the company's Articles of Association, if a director is requested to perform extra or special services, they will be entitled to receive such additional remuneration as the board considers appropriate.
-
- 3) In accordance with the company's Articles of Association, the directors are also entitled to be reimbursed for out-of-pocket expenses and any other reasonable expenses incurred in the proper performance of their duties.
-
- 4) Directors' fees are set to:
 - ▶ be sufficient to attract and retain individuals of a high calibre with suitable knowledge and experience to promote the long-term success of the company;
 - ▶ reflect the time spent by the directors on the company's affairs;
 - ▶ reflect the responsibilities borne by the directors;
 - ▶ recognise the more onerous roles of the Chairman of the board and the Chairman of the Audit Committee through the payment of higher fees.
-
- 5) Fees payable to the directors will be reviewed annually. A number of factors will be considered to ensure that the fees are set at an appropriate level. These will include the average rate of inflation during the period since the last fee increase, the level of directors' remuneration for other investment trusts of a similar size and complexity of the directors' responsibilities.
-
- 6) Total remuneration paid to the non-executive directors is subject to an annual aggregate limit of £150,000, in accordance with the company's Articles of Association. Any changes to this limit will require shareholder approval by ordinary resolution.
-

Directors' remuneration report (continued)

Directors' Remuneration policy (continued)

There are no performance-related elements to the directors' fees. Directors do not receive bonus payments or pension contributions from the company or any option to acquire shares. There is no entitlement to exit payments or compensation on loss of office. None of the directors has a service contract with the company and their terms of appointment are set out in a letter provided on joining the board. These letters are available for inspection at the company's registered office.

Consideration of shareholders' views

In accordance with the requirements of the Companies Act 2006, shareholder approval for the remuneration report will be sought at the forthcoming AGM. Shareholders will have the opportunity to express their views and raise any queries on the policy at this meeting.

At the AGM held on 6 July 2022, of votes cast, 99.64% were in favour of (or granted discretion to the chairman who voted in favour of) the resolutions to approve the Directors' Remuneration Report. Of the votes cast 0.36% were against the resolutions.

Details of voting on the Remuneration Report at the 2023 AGM will be provided in the Annual Report for the year ending 28 February 2024.

Remuneration Policy Implementation Report (Audited)

The single total remuneration figure for each director who served during the year ended 28 February 2023 is set out below.

Director	Year ended 28 February 2023			Year ended 28 February 2022			Percentage change in gross fee
	Gross fees £	Taxable benefits £	Total £	Gross fees £	Taxable benefits £	Total £	
Hugh Aldous (appointed 17/02/17)	35,000	-	35,000	35,000	-	35,000	-
Robert Legget (appointed 22/07/19)	30,000	-	30,000	30,000	-	30,000	-
Linda Bell (appointed 19/09/18)	25,000	-	25,000	25,000	-	25,000	-
William Dawkins (appointed 07/11/19)	25,000	-	25,000	25,000	-	25,000	-
	115,000	-	115,000	115,000	-	115,000	

No discretionary payments were made during the year ended 28 February 2023.

The board's remuneration was last reviewed in February 2021 and it was agreed that there would not be any changes to the directors' fees for the year ending 28 February 2023. All pay is fixed. Any feedback from shareholders is taken into account by the board when setting remuneration levels.

Directors' remuneration report (continued)

Remuneration Policy Implementation Report (Audited) (continued)

In the year under review, directors' fees were maintained at the following rates:

- ▶ Chairman - £35,000;
- ▶ Chair of the Audit Committee - £30,000; and
- ▶ all other directors - £25,000.

As the company has no employees, the total remuneration costs and benefits paid by the company are those set out in the table on the previous page.

Relative importance of spend on remuneration

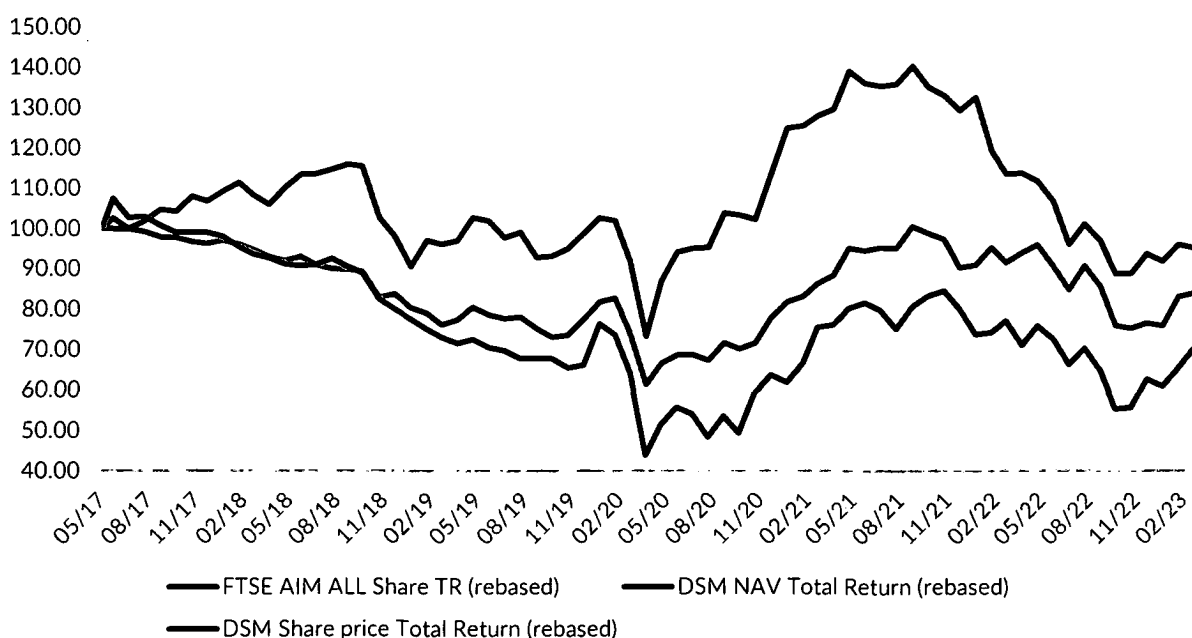
The following table shows the proportion of the company's income spent on remuneration during the year ended 28 February 2023.

	Year ended 28 February 2023	Year ended 28 February 2022	Change %
Management fees payable for the year	309,000	385,000	(19.74%)
Total remuneration payable to the directors	115,000	115,000	-
(Loss)/return on ordinary activities after tax	(3,735,000)	2,420,000	(254.34%)

Performance

The company does not have a specific benchmark against which performance is measured. The graph below compares the company's NAV and share price on a total return basis (with dividends reinvested) with the total return on an equivalent investment in the FTSE AIM All Share TR Index, where the majority of the investments held in the company's portfolio are drawn from and which is therefore considered the closest broad index against which to measure the company's performance.

Performance from 9 May 2017* to 28 February 2023



*The company commenced trading on the main market of the London Stock Exchange on 9 May 2017.

Source: Downing LLP. Index: FTSE AIM All Share TR.

All figures rebased to 100 pence as at 9 May 2017.

Directors' remuneration report (continued)

Directors' interests in shares (Audited) (continued)

There are no requirements for the directors to own shares in the company.

The director's interests and those of their connected persons in the Ordinary Shares of the company are set out in the table below. All of the holdings are beneficial and all of the directors held office during the full period under review.

Directors' holdings in the company's Ordinary Shares of 0.1 pence per share		
Director	28 February 2023	28 February 2022
Hugh Aldous ¹	250,000	200,000
Linda Bell	20,386	20,386
William Dawkins ²	37,000	37,000
Robert Legget	12,500	12,500

¹ includes 39,791 shares held by Mrs Aldous

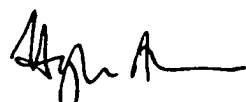
² includes 7,300 shares held by Mrs Dawkins

Since the year end, Hugh Aldous has decreased his holdings in the company to 249,700 shares, including 69,791 shares held by Mrs Aldous.

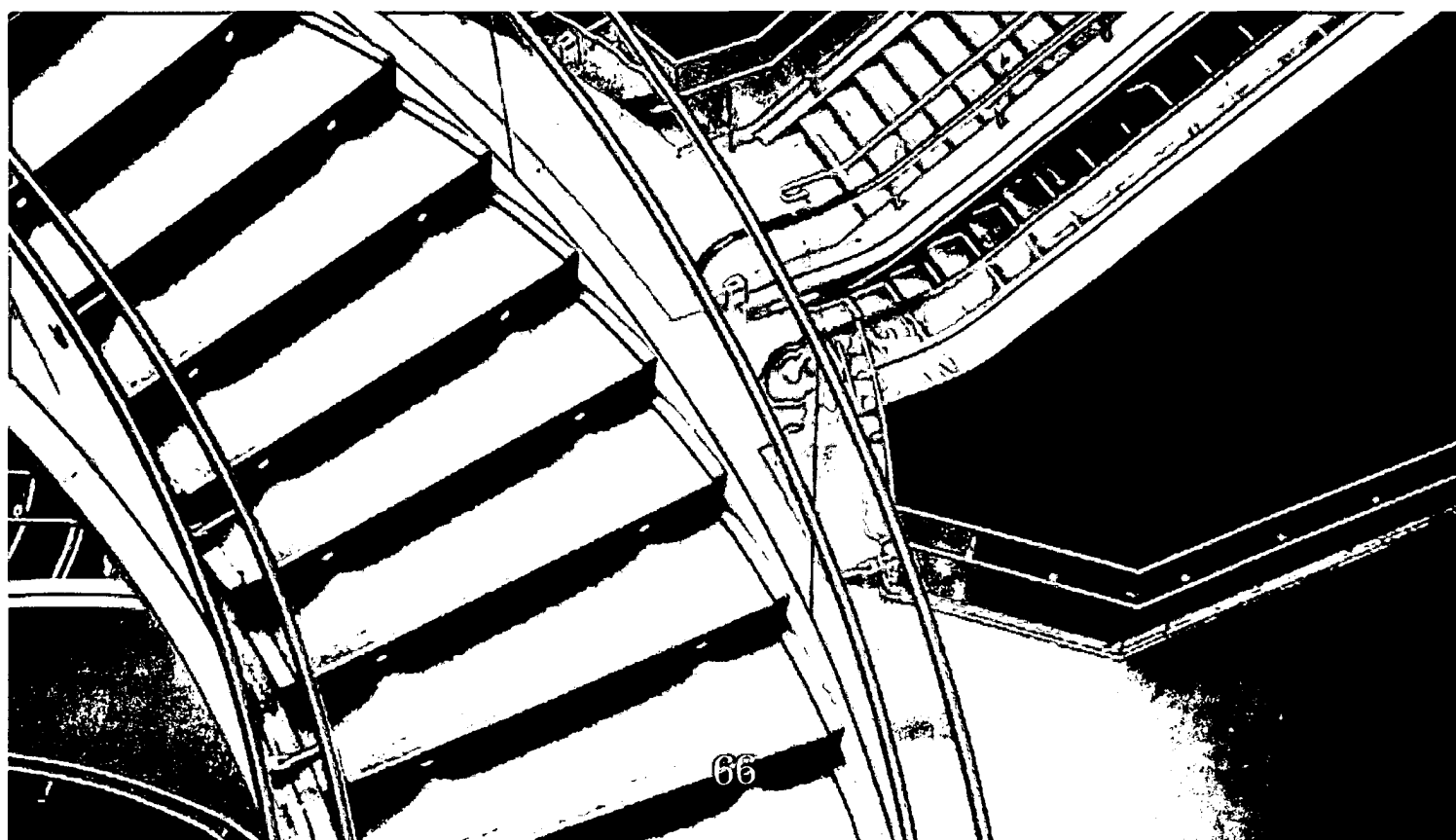
There were no other changes in the above holdings between the company's year end and the date of this report.

The Directors' Remuneration Report was approved by the board on 5 May 2023.

For and on behalf of the board



Hugh Aldous
Chairman
5 May 2023



Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulation.

Company law requires the directors to prepare Financial Statements for each financial year. Under that law the directors have prepared the company's Financial Statements in accordance with the UK adopted international accounting standards and in conformity with the requirements of the Companies Act 2006. Under company law, the directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing these Financial Statements, the directors are required to:

- ▶ select suitable accounting policies and then apply them consistently;
- ▶ make judgements and estimates that are reasonable and prudent;
- ▶ state whether the UK adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- ▶ prepare the Financial Statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company, and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

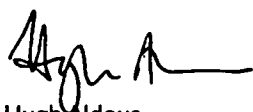
The directors are also responsible for preparing the Strategic Report, Directors' Report, Directors' Remuneration Report, the Corporate Governance Statement and the Report of the Audit Committee in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

The directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy.

Each of the directors, who are listed on page 38, confirms that, to the best of his or her knowledge:

- ▶ the Financial Statements, which have been prepared in accordance with the UK adopted international accounting standards and on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profits of the company; and
- ▶ the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the board



Hugh Aldous
Chairman
5 May 2023

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC

Opinion on the financial statements

In our opinion the financial statements:

- ▶ give a true and fair view of the state of the Company's affairs as at 28 February 2023 and of its loss for the year then ended;
- ▶ have been properly prepared in accordance with UK adopted international accounting standards; and
- ▶ have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Downing Strategic Micro-Cap Investment Trust PLC (the 'Company') for the year ended 28 February 2023 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit opinion is consistent with the additional report to the audit committee.

Independence

Following the recommendation of the audit committee, we were appointed by the board of directors on 6 January 2020 to audit the financial statements for the year ended 29 February 2020 and subsequent financial periods. The period of total uninterrupted engagement including retenders and reappointments is 4 years, covering the years ended 28 February 2020 to 28 February 2023. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- ▶ Evaluating the appropriateness of the Directors' method of assessing the going concern in light of market volatility and the present uncertainties in economic recovery by reviewing the information used by the Directors in completing their assessment;
- ▶ Assessing the liquidity position available to meet the future obligations and operating expense cover for the next twelve months by considering the liquidity of the investment portfolio and current cash position; and
- ▶ Challenging the directors' assumptions in relating to the cash flow forecast prepared to incorporate the worst-case scenario by checking the Company's ability to meet its obligations in relation to minimum dividend payments, investment realisations and ongoing expenses.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the Company's reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC (continued)

Overview

Overview			
		2023	2022
Key audit matters	Valuation and ownership of investments	✓	✓
Materiality	Company financial statements as a whole £0.38m (2022: £0.43m) based on 1% (2022: 1%) of Net Assets		

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the scope of our audit addressed the key audit matter
<p><i>Valuation and ownership of investments (Accounting policy note page 81-82, and note 9 and note 15)</i></p> <p>The investment portfolio at the year-end comprised of quoted and unquoted investments.</p> <p>There is a risk of inappropriate valuation of the unquoted investments as at the balance sheet date through manipulation of judgemental inputs. There is an inherent risk of management override arising from the unquoted investment valuations being prepared by the Investment Manager, who is remunerated based on the performance of the Company.</p> <p>There is also a risk that the incorrect inputs may be used out of error in the valuation calculation which would impact the valuation of unquoted investments.</p>	<p>We responded to this matter by testing the valuation and ownership of 100% of the portfolio of investments.</p> <p>In respect of the valuation and ownership of the portfolio of quoted investments. We performed the following procedures:</p> <ul style="list-style-type: none"> ► Confirmed the year-end bid price was used by agreeing to externally quoted prices. ► Assessed if there were contra indicators, such as liquidity considerations, to suggest bid price is not the most appropriate indication of fair value by considering the realisation period for individual holdings. ► Recalculated the valuation by multiplying the number of shares held at the year-end in the Company's portfolio by the valuation per share ► Obtained direct confirmation of the number of shares held per equity investment from the custodian regarding all investments held at the balance sheet date. <p>In respect of unquoted investment valuations and ownership, we have:</p> <ul style="list-style-type: none"> ► Corroborated title and existence of the unquoted investments by referencing to a range of information including share certificates and independent confirmations from the investee company.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC (continued)

	<p>In addition to above, we do not consider the remaining 86.7% of investments to be subject to a significant degree of estimate or judgement as they comprise quoted, liquid investments. However, there remains a risk of error that the prices used for the quoted investments held by the Company are not reflective of fair value.</p> <p>There is also a risk that errors made in the recording of investment holdings result in the incorrect reflection of investments owned by the Company.</p> <p>We therefore considered the valuation and ownership of quoted and unquoted investments to be the most significant audit area as these represent the most significant balance in the financial statements and underpin the principal activity of the Company.</p> <p>For these reasons and the materiality of the balance in relation to the financial statements as a whole, we considered this to be a key audit matter.</p>	<ul style="list-style-type: none"> ▶ Considered whether the valuation methodology is the most appropriate in the circumstances under the International Private Equity and Venture Capital Valuation ("IPEV") Guidelines and in accordance with applicable accounting standards. ▶ Verified and benchmarked key inputs and estimates to independent information and our own research. ▶ Considered the appropriateness of revenue or earnings multiples applied and the discounts applied by reference to observable listed company market data. ▶ Reviewed the historical financial statements and recent management information available to support assumptions about maintainable revenue and earnings used in the valuations. ▶ Where appropriate, we performed a sensitivity analysis by developing our own point estimate where we considered that alternative input assumptions could reasonably have been applied and we considered the overall impact of such sensitivities on the portfolio of investments in determining whether the valuations as a whole are reasonable and free from bias. <p>Key observations: Based on our procedures performed we did not identify any matters to suggest the valuation or ownership of the investments was not appropriate</p>
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Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC (continued)

Our application of materiality (continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements	
	2023 £m	2022 £m
Materiality	0.38	0.43
Basis for determining materiality	1% of Net Assets	
Rationale for the benchmark applied	As an investment trust, the net asset value is a key measure of performance for users of the financial statements.	
Performance materiality	0.29	0.32
Basis for determining performance materiality	75% of materiality	
Rationale for the percentage applied for performance materiality	The level of performance materiality applied was set after having considered a number of factors including the expected total value of known and likely misstatements and the level of transactions in the year.	

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £8,000 (2022: £9,000). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the *annual report and financial statements* other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

Going concern and longer-term viability	<ul style="list-style-type: none"> ▶ The directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified; and ▶ The directors' explanation as to their assessment of the company's prospects, the period this assessment covers and why the period is appropriate.
Other Code provisions	<ul style="list-style-type: none"> ▶ Directors' statement on fair, balanced and understandable; ▶ Board's confirmation that it has carried out a robust assessment of the emerging and principal risks; ▶ The section of the annual report that describes the review of effectiveness of risk management and internal control systems; and ▶ The section describing the work of the audit committee.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC (continued)

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic Report and Directors' Report	<p>In our opinion, based on the work undertaken in the course of the audit:</p> <ul style="list-style-type: none"> ▶ the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and ▶ the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. <p>In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.</p>
Directors' remuneration	In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.
Matters on which we are required to report by exception	<p>We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:</p> <ul style="list-style-type: none"> ▶ adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or ▶ the financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or ▶ certain disclosures of Directors' remuneration specified by law are not made; or ▶ we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

Non-compliance with laws and regulations

Based on:

- ▶ Our understanding of the Company and the industry in which it operates;
- ▶ Discussion with management, those charged with governance and the Audit Committee; and
- ▶ Obtaining and understanding of the Company's policies and procedures regarding compliance with laws and regulations,

we considered the significant laws and regulations to be Companies Act 2006, the FCA listing and DTR rules, the principles of the AIC Code of Corporate Governance, industry practice represented by the AIC SORP, the applicable accounting framework, and the Company's qualification as an Investment Trust under UK tax legislation as any non-compliance of this would lead to the Company losing various deductions and exemptions from corporation tax.

Our procedures in respect of the above included:

- ▶ Agreement of the financial statement disclosures to underlying supporting documentation;
- ▶ Enquiries of management and those charged with governance relating to the existence of any non-compliance with laws and regulations;
- ▶ Reviewing minutes of meeting of those charged with governance throughout the period for instances of non-compliance with laws and regulations; and
- ▶ Reviewing the calculation in relation to Investment Trust compliance to check that the Company was meeting its requirements to retain their Investment Trust Status.

Fraud

We assessed the susceptibility of the financial statement to material misstatement including fraud. Our risk assessment procedures included:

- ▶ Enquiry with management, those charged with governance and the Audit Committee, regarding any known or suspected instances of fraud;
- ▶ Obtaining an understanding of the Company's policies and procedures relating to:
 - Detecting and responding to the risks of fraud; and
 - Internal controls established to mitigate risks related to fraud.
- ▶ Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud; and
- ▶ Discussion amongst the engagement team as to how and where fraud might occur in the financial statements.

Based on our risk assessment, we considered the area's most susceptible to be management override of controls.

Our procedures in respect of above included:

- ▶ Testing the material period end journals by agreeing to supporting documentation and evaluating whether there was evidence of bias by the Investment Manager and Directors that represented a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Downing Strategic Micro-Cap Investment Trust PLC (continued)

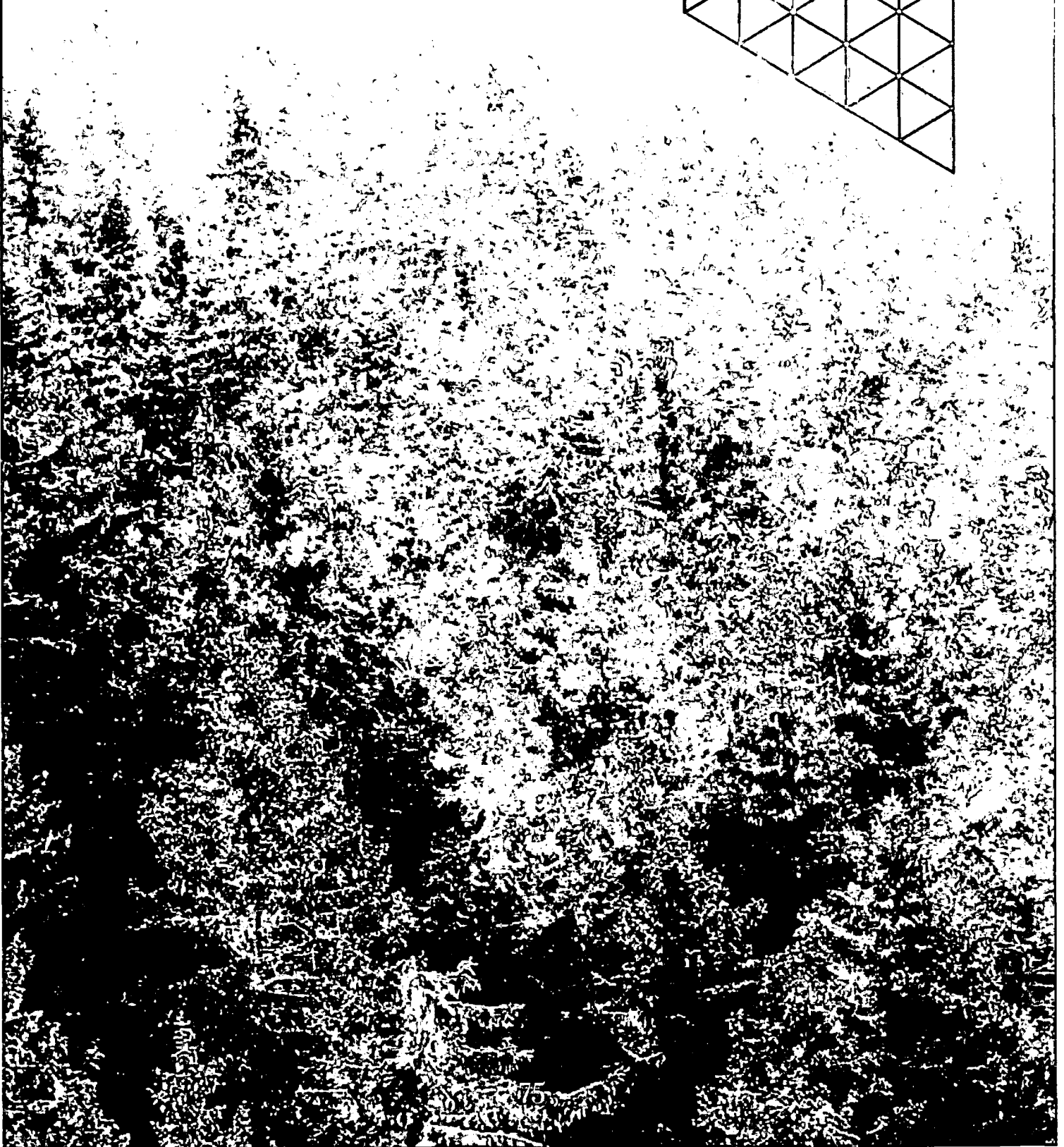
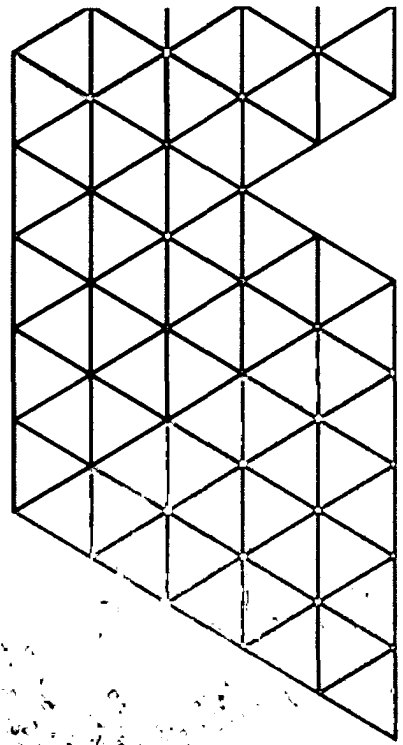
Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Fung-On (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
5 May 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Making investment
more rewarding



Financial Statements

Statement of Profit or Loss and Other Comprehensive Income for the year ended 28 February 2023

	Year ended 28 February 2023			Year ended 28 February 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments at fair value through profit or loss (note 9)	-	(2,774)	(2,774)	-	2,454	2,454
Investment income (note 3)	1,088	-	1,088	700	61	761
	1,088	(2,774)	(1,686)	700	2,515	3,215
Investment management fee (note 4)	(62)	(247)	(309)	(77)	(308)	(385)
Impairment expense	(1,196)	-	(1,196)	-	-	-
Other expenses (note 5)	(483)	(61)	(544)	(410)	-	(410)
	(1,741)	(308)	(2,049)	(487)	(308)	(795)
Return before taxation	(653)	(3,082)	(3,735)	213	2,207	2,420
Taxation (note 7)	-	-	-	-	-	-
Return for the year after taxation	(653)	(3,082)	(3,735)	213	2,207	2,420
	Revenue (p)	Capital (p)	Total (p)	Revenue (p)	Capital (p)	Total (p)
Basic and diluted return per Ordinary Share (note 6)	(1.32)	(6.22)	(7.54)	0.42	4.29	4.71

The total column of this statement represents the Statement of Profit or Loss and Comprehensive Income of the company prepared in accordance with the UK adopted 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 return for the year 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.

The notes on pages 80 to 92 form an integral part of these Financial Statements.

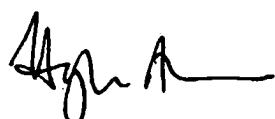
Statement of Changes in Equity
for the year ended 28 February 2023

	Note	Share capital £'000	Capital redemption reserve £'000	Special reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total £'000
At 28 February 2021		56	-	54,474	(12,863)	857	42,524
Return for the year		-	-	-	2,207	213	2,420
Buyback of Ordinary Shares into treasury		-	-	-	(1,460)	-	(1,460)
Transfers between reserves		-	-	-	-	-	-
Expenses for share buybacks		-	-	-	(10)	-	(10)
Dividends paid	8	-	-	-	-	(415)	(415)
As at 28 February 2022		56	-	54,474	(12,126)	655	43,059
At 28 February 2022		56	-	54,474	(12,126)	655	43,059
Return for the year		-	-	-	(3,082)	(653)	(3,735)
Buyback of Ordinary Shares into treasury		-	-	-	(812)	-	(812)
Transfers between reserves		-	-	-	-	-	-
Cancellation of treasury shares		(4)	4	-	-	-	-
Expenses for share buybacks		-	-	-	(8)	-	(8)
Dividends paid	8	-	-	-	-	(149)	(149)
As at 28 February 2023		52	4	54,474	(16,028)	(147)	38,355

Statement of Financial Position
as at 28 February 2023

	Note	28 February 2023 £'000	28 February 2022 £'000
Non-current assets			
Investments held at fair value through profit or loss	9, 15	36,927	39,441
		36,927	39,441
Current assets			
Trade and other receivables	10	88	60
Cash and cash equivalents		1,505	3,798
		1,593	3,858
Total assets		38,520	43,299
Current liabilities			
Trade and other payables	11	(165)	(240)
		(165)	(240)
Total assets less current liabilities		38,355	43,059
Net Assets		38,355	43,059
Represented by:			
Share capital	12	52	56
Capital redemption reserve		4	-
Special reserve		54,474	54,474
Capital reserve		(16,028)	(12,126)
Revenue reserve		(147)	655
Equity shareholders' funds		38,355	43,059
Net asset value per Ordinary Share	13	77.99p	85.43p

The Financial Statements were approved by the board on 5 May 2023 and were signed on its behalf by:



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

The notes on pages 80 to 92 form an integral part of these Financial Statements.

Statement of Cash Flows
for the year ended 28 February 2023

		Year ended 28 February 2023	Year ended 28 February 2022
	Notes	£'000	£'000
Operating activities			
Return before taxation		(3,735)	2,420
(Losses)/gains on investments at fair value through profit or loss	9	2,774	(2,454)
UK fixed interest income	3	(380)	(351)
Receipt of UK fixed interest income		-	1,162
Impairment expense		1,196	-
(Increase)/decrease in other receivables		(28)	(21)
(Decrease)/increase in other payables		(75)	79
Purchases of investments		(6,321)	(14,493)
Sales of investments		5,244	15,913
Net cash inflow/(outflow) from operating activities		(1,325)	2,255
Financing activities			
Buyback of Ordinary shares into treasury		(812)	(1,460)
Expenses for share buybacks		(7)	(10)
Dividends paid		(149)	(415)
Net cash outflow from financing activities		(968)	(1,885)
Change in cash and cash equivalents		(2,293)	370
Cash and cash equivalents at start of period		3,798	3,428
Cash and cash equivalents at end of period		1,505	3,798
Comprised of:			
Cash and cash equivalents		1,505	3,798

The notes on pages 80 to 92 form an integral part of these Financial Statements.

Notes to the Financial Statements

for the year ended 28 February 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 company within the meaning of Chapter 4 of Part 24 of the Corporation Tax Act 2010.

2. Accounting policies

Basis of accounting

The annual Financial Statements of the company have been prepared in accordance with the UK adopted 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 July 2022, is consistent with the requirements of the UK adopted international accounting standards, the directors have sought to prepare the Financial Statements on a consistent basis compliant with the recommendations of the SORP.

Going concern

The Financial Statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

The directors have made an assessment of the company's ability to continue as a going concern and are satisfied that the company has the resources to continue in business for the foreseeable future, being a period of 12 months from the date these Financial Statements were approved. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt upon the company's ability to continue as a going concern, having taken into account the liquidity of the company's investment portfolio and the company's financial position in respect of its cash flows and investment commitments. Therefore, the Financial Statements have been prepared on the going concern basis.

Presentation of Statement of Profit or Loss and Other Comprehensive Income

In order to better reflect the activities of an investment trust and in accordance with guidance issued by the AIC, supplementary information which analyses the income statement between items of revenue and capital nature has been presented alongside the income statement. The revenue profit for the year is the measure the directors believe is appropriate in assessing the company's compliance with certain requirements set out in the Investment Trust (Approved Company) (Tax) Regulations 2011.

Segmental reporting

The directors are of the opinion that the company is engaged in a single segment of business, being investment business. The company only invests in companies quoted in the UK.

Accounting developments: new standards, interpretations and amendments adopted from 1 January 2022

Management have assessed all new standards and amendments to standards and interpretations that are effective for annual periods after 1 January 2022 and considered none to have a significant effect on these Financial Statements.

Accounting developments: new standards, interpretations, and amendments not yet effective

- ▶ IAS 1 (Amendments to the Classification of Liabilities as Current or Non-Current) – effective 1 January 2023
- ▶ IAS 1 (Amendments to the Disclosure of Accounting Policies) – effective 1 January 2023
- ▶ IAS 8 (Amendments to the Definition of Accounting Estimates) – effective 1 January 2023

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

2. Accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements in conformity with the UK adopted international accounting standards requires management to make judgements, estimates and assumptions that affect the application of policies and the amounts reported in the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

The Directors have made the following judgements and estimates that have had the most significant impact on the carrying values of assets and liabilities stated in these financial statements:

- ▶ **Valuation and classification of unquoted loan notes:** unquoted loan note investments, comprising loan note principal, interest, and any amounts of redemption premium, are held at fair value through profit or loss and are valued using a discounted cash flow methodology. Key contractual inputs, as well as assumptions regarding the nature, timing and amount of future cash flows are assessed as part of the discounted cash flow approach. The directors use judgement in selecting and applying the assumptions used, although such assumptions are based upon all available information which the directors deem to be reliable and are stress tested under a range of scenarios. The assessment of the valuation of unquoted loan notes by the Directors take into account the dependability of the estimated EBITDA for the upcoming financial year. The valuation of the unquoted investment is based successful implementation of management's plan for the business in the next financial year. If the EBITDA estimate is not met, it would have a significant impact on the valuation of the unquoted loan notes. The directors consider all loan note investments to be non-current assets, as such investments are entered into in conjunction with a strategic equity holding in the same portfolio company.
- ▶ **Valuation of unquoted equity:** a key estimate in the financial statements is the determination of the fair value of the unquoted equity by the Directors, as it impacts the valuation of the unquoted investments at the balance sheet date. Of the company's assets measured at fair value, it is possible to determine their fair values within a reasonable range of estimates. The fair value upon acquisition is deemed to be cost. Thereafter, unquoted equity is measured at fair value in accordance with International Private Equity and Venture Capital Valuation ('IPEV') Guidelines.

There were no other significant accounting estimates or significant judgements applied in the current period.

Investments held at fair value

All investments held by the company (quoted and unquoted equity investments, redemption premium, unquoted loan notes and unpaid loan note interest) are classified at 'fair value through profit or loss' as the investments are managed and their performance evaluated on a fair value basis in accordance with the investment strategy and this is also the basis on which information about the investments is reported to the board. Investments are initially recognised at book cost, being the fair value of the consideration given, including any transaction fees. After initial recognition, investments are measured at fair value, with unrealised gains and losses on investments recognised in the statement of comprehensive income and allocated to capital. Realised gains and losses on investments sold are calculated as the difference between sales proceeds and the book cost.

For investments actively traded in organised financial markets, fair value is generally determined on a daily basis, with reference to quoted market bid prices at the close of business on the balance sheet date, without adjustment for transaction costs necessary to realise the asset. When a purchase or sale is made under a contract, the terms of which are required to be delivered within the time frame of the relevant market, the investments concerned are recognised or derecognised on the trade date.

Unquoted investments are valued by the directors at the balance sheet date based on recognised valuation methodologies, in accordance with International Private Equity and Venture Capital Valuation ('IPEV') Guidelines, such as dealing prices or third-party valuations where available, net asset values and other information as appropriate.

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

2. Accounting policies (continued)

Investments held at fair value (continued)

UK fixed interest income represents loan note interest receivable from unquoted investments and is measured on a daily basis. Such amounts form 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.

All investments for which fair value is measured or disclosed in the Financial Statements will be categorised within the fair value hierarchy in the notes of the Financial Statements, described as follows, based on the lowest significant applicable input:

- ▶ Level 1 reflects financial instruments quoted in an active market;
- ▶ Level 2 reflects financial instruments whose fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets; and
- ▶ Level 3 reflects financial instruments whose fair value is determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable market transactions in the same instrument and not based on available observable market data. For investments that are recognised in the Financial Statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorisation (based on the lowest significant applicable input) at the date of the event that caused the transfer.

Income

Dividends receivable on quoted equity shares are taken into account on the ex-dividend date. Where no ex-dividend date is quoted, they are brought into account when the company's right to receive payment is established. Special dividends will be taken to revenue or capital account depending on their nature. In deciding whether a dividend should be regarded as a capital or revenue receipt, the company will review all relevant information as to the reasons for and sources of the dividend on a case-by-case basis.

UK fixed interest income is recorded on a daily basis and in the revenue column of the Statement of Profit or Loss and Other Comprehensive Income. Where the terms of loan note investments require interest or a redemption premium to be paid on redemption, the fair values of any previously unpaid amounts are assessed as part of the total fair values of the loan note instruments, under the company's discounted cash flow methodology.

Dividend's receivable are initially recognised at the fair value of the consideration receivable by the company. This is subsequently measured at amortised cost using the effective interest method less any provision for impairment. The company recognises an annual loss allowance for expected credit losses ('ECL allowances'), in accordance with IFRS 9. ECL allowances are calculated on a specific basis and are deducted from the gross carrying values of the dividend receivables carried at amortised cost. ECL allowances are recognised in the Statement of Profit or Loss and Other Comprehensive Income, designated as revenue or capital in accordance with the categorisation of the income to which the allowance relates.

Expenses

All expenses are accounted for on an accruals basis and gross of Value Added Tax ('VAT') where charged to the company. All expenses are charged to revenue within the statement of profit or loss and other comprehensive income, with the exception of the following:

- ▶ expenses which are incidental to the acquisition or disposal of an investment as an element of the purchase of sales consideration respectively, and therefore charged to capital. Details of transaction costs are given in note 9. All other expenses are allocated to revenue, with the exception of 80% of the investment manager's fee which is allocated to capital. This is in line with the board's expected long-term split of returns from the investment portfolio in the form of income and capital gains respectively.

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

2. Accounting policies (continued)

Taxation

The charge for taxation is based on revenue profit for the year. Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date. Investment Trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains. Any tax relief obtained in respect of investment management fees and other capital expenses charged or allocated to the capital column of the Statement of Profit or Loss and Other Comprehensive Income is reflected in the capital reserve and a corresponding amount is charged against the revenue column of the Statement of Profit or Loss and Other Comprehensive Income. The tax relief is the amount by which corporation tax payable is reduced as a result of these capital expenses.

Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Operating cash flows

As the principal activity of the company is to invest in accordance with the Investment Policy, the directors consider all cash flows relating to the portfolio, including purchases and sales of investments, to be operating cash flows. Operating cash flows also includes cash movements relating to investment income and the settling of investment management fees and other expenses.

Share issue costs

Share issue costs relating to Ordinary Shares issued by the company are charged to the share premium account.

Repurchase of Ordinary Shares for cancellation or to be held in Treasury

The cost of repurchasing shares including the related stamp duty and transaction costs is made from total distributive reserves and is charged to capital reserves and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. Where shares are cancelled or held in Treasury and subsequently cancelled, the nominal value of those shares is transferred out of called up share capital and into Capital Redemption Reserve. Should shares held in Treasury be reissued, the sales proceeds up to the purchase price of the shares will be transferred to capital reserves. The excess of the sales proceeds over the purchase price will be transferred to share premium.

Capital reserve

Capital reserve is a distributable reserve which includes:

- ▶ gains and losses on the disposal of investments;
- ▶ exchange difference of a capital nature;
- ▶ expenses, together with the related taxation effect, allocated to this reserve in accordance with the above policies; and
- ▶ increase and decrease in the valuation of investments held at period end.

Revenue reserve

This reserve includes profit for the year recognised in the revenue column of the Statement of Profit or Loss and Other Comprehensive Income. This reserve is distributable.

Special reserve

The company cancelled its share premium account following a court order issued on 12 July 2017. As a result, a distributable special reserve was created. This reserve is distributable.

Capital redemption reserve

This reserve represents the repurchase and subsequent cancellation of the Ordinary Shares of the company. This reserve is not distributable.

Dividends payable to shareholders

Dividends to shareholders are recognised as a liability in the period in which they are paid. Dividends declared and approved by the company after the balance sheet date have not been recognised as a liability of the company at the balance sheet date.

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

3. Income

			Year ended 28 February 2023	Year ended 28 February 2022
	Revenue	Capital	Total	Total
	£'000	£'000	£'000	£'000
Income from investments				
UK dividend income	688	-	688	349
UK fixed interest income (note 9)	380	-	380	351
Arrangement fee Income	-	-	-	61
Bank interest income	20	-	20	-
Total	1,088	-	1,088	761

UK fixed interest income represents loan note interest receivable from Real Good Food plc and Norman Broadbent plc. Such amounts form 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.

	Year ended 28 February 2023	Year ended 28 February 2022
	£'000	£'000
Investment management fee		
Revenue	62	77
Capital	247	308
Total	309	385

5. Other expenses

	Year ended 28 February 2023	Year ended 28 February 2022
	£'000	£'000
Administration and secretarial fees	79	79
Auditor's remuneration:		
- audit services	43	35
Directors' fees	115	115
Safe custody fees	8	8
Legal fees (non-capital items)	7	-
Marketing fees	48	-
Advisory and consulting	47	50
Sundry fees	126	121
Taxation services	10	2
Revenue expenses	483	410
Capital expenses – legal fees	61	-
Total expenses	544	410

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

6. Basic and diluted return per Ordinary Share

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

	Year ended 28 February 2023		Year ended 28 February 2022	
	Net return £'000	Per share Pence	Net return £'000	Per share Pence
Revenue return	(653)	(1.32)	213	0.42
Capital return	(3,082)	(6.22)	2,207	4.29
Total return	(3,735)	(7.54)	2,420	4.71
Weighted average number of Ordinary Shares ¹	49,519,100		51,409,463	

¹Excluding treasury shares

7. Taxation

	Year ended 28 February 2023			Year ended 28 February 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
UK corporation tax at 19% (2022: 19%)	-	-	-	-	-	-

The current taxation charge for the period differs from the standard rate of corporation tax in the UK of 19% (2022: 19%). The differences are explained below:

	Year ended 28 February 2023			Year ended 28 February 2022		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Return before taxation	(653)	(3,082)	(3,735)	213	2,207	2,420
Theoretical tax at UK corporation tax rate of 19%	(124)	(586)	(710)	40	420	460
Effects of:						
UK dividends not taxable	(131)	-	(131)	(66)	-	(66)
Capital items not taxable	-	527	527	-	(466)	(466)
Excess expenses in the period	255	59	314	26	46	72
Actual current tax charge	-	-	-	-	-	-

Factors that may affect future tax charges:

The company has surplus management expenses carried forward of £2,700,800 (2022: £1,050,700), resulting in an unrecognised deferred tax asset of £675,000. It is unlikely that the company will generate sufficient taxable profits in the future to utilise these expenses, therefore no provision for any deferred tax asset has been made in the current year. The company has not provided for deferred tax on capital gains or losses arising on the revaluation or disposal of investments as it is exempt from tax on these items because of its status as an investment trust.

8. Dividends

	Year ended 28 February 2023	Year ended 28 February 2022
	£'000	£'000
Dividends paid during the year	149	415

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

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

9. Investments

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Opening book cost	40,512	38,425
Opening UK fixed interest income at fair value through profit or loss	1,282	2,093
Opening investment holding (losses)	(2,353)	(1,300)
Opening valuation	39,441	39,218
Movements in the year		
UK Fixed interest income at fair value through profit or loss (note 3)	380	351
Receipt of UK fixed interest income	-	(1,162)
Impairment of accrued loan note interest receivable	(1,196)	-
Investment purchases at cost	6,321	14,493
Disposals:		
Proceeds	(5,245)	(15,913)
Net realised gains/(losses) on disposals	852	(1,492)
Movement in investment holding gains	(3,626)	3,946
Closing valuation	36,927	39,441
Closing book cost	42,440	40,512
Closing UK fixed interest income at fair value through profit or loss	466	1,282
Closing investment holding (losses)	(5,979)	(2,353)
	36,927	39,441
Realised gains/(loss) on disposals	852	(1,492)
Movement in investment holding gains	(3,626)	3,946
Gains on investments held at fair value through profit or loss	(2,774)	2,454

Transaction costs

During the year the company incurred transaction costs of £12,000 (2022: £32,000) and £4,000 (2022: £4,000) on purchases and sales respectively. These amounts are included in gains on investments, as disclosed in the statement of comprehensive income.

10. Trade and other receivables

	28 February 2023 £'000	28 February 2022 £'000
Dividends receivable	75	48
Prepayments and accrued income	13	12
	88	60

11. Trade and other payables

	28 February 2023 £'000	28 February 2022 £'000
Other creditors	165	240

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

12. Called-up share capital

	Number of Ordinary shares	Treasury shares	Preference Management shares	Total shares	Nominal value £'000
Allotted, called up and fully paid share capital comprises:					
At 28 February 2022	50,402,145	5,147,857	-	55,550,002	56
Issue of non-redeemable preference management shares	-	-	1	1	-
Cancellation of Ordinary Shares	-	-	-	-	-
Shares purchased into treasury	(1,225,546)	1,225,546	-	-	-
Cancellation of treasury shares	-	(3,815,697)	-	(3,815,697)	(4)
At 28 February 2023	49,176,599	2,557,706	1	51,734,306	52

The company was incorporated on the 17 February 2017 with issued share capital of £50,002 represented by 50,000 Management shares ('Management shares') of £1.00 each and 2 Ordinary Shares of £0.001. On 9 May 2017, the company issued 55.6 million Ordinary £0.001 Shares at a £1 per share in a placing, offer for subscription and intermediaries offer, raising £54.5 million after expenses. The Management shares were redeemed immediately following admission of the Ordinary Shares on 9 May 2017, out of the proceeds of the issue.

During the year 1,225,546 (2022: 1,996,346) Ordinary Shares were bought back and placed in treasury for an aggregate consideration of £812,000, at an average price of 66.29p per share (2022: £1,460,453, at an average price of 73.2p per share). No Ordinary Shares held in treasury were re-issued into the market. During the period 3,815,697 Ordinary Shares held in treasury were cancelled (2022: Nil).

The Ordinary Shares in issue at the year-end includes 2,557,706 (2022: 5,147,857) Ordinary Shares held in treasury.

Following the passing of a resolution at the General Meeting on 20 February 2023, the Board of Directors allotted one new non-redeemable Preference Management Share with no voting rights.

The Ordinary Shares can be redeemed by the company under the redemption process as set out in the Articles of Association.

13. Net Asset Value per Ordinary Share

NAV per Ordinary Share is based on net assets at the period end and 49,176,599 (28 February 2022: 50,402,145) Ordinary Shares, being the number of Ordinary Shares in issue excluding treasury shares at the period end.

	28 February 2023		28 February 2022	
	NAV per share Pence	NAV attributable £'000	NAV per share Pence	NAV attributable £'000
Ordinary Shares:				
Basic and diluted	77.99	38,355	85.43	43,059

14. Analysis of financial assets and liabilities

Investment objective and policy

The company's investment objective and investment policy are detailed on the inside front cover and in the Strategic Report on pages 42 to 43. The company's investing activities in pursuit of its investment objective involve certain inherent risks. The company's financial instruments can comprise:

- ▶ shares and debt securities held in accordance with the company's Investment Objective and investment policies;
- ▶ derivative instruments for efficient portfolio management, gearing and investment purposes; and
- ▶ cash, liquid resources and short-term receivables and payables that arise from its operations.

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

14. Analysis of financial assets and liabilities (continued)

Investment objective and policy (continued)

The risks identified arising from the company's financial instruments are market risk (which comprises market price risk, interest rate risk and foreign currency exposure risk), liquidity risk and credit and counterparty risk. The company may enter into derivative contracts to manage risk. The board reviews and agrees policies for managing each of these risks, which are summarised below.

Market risk

Market risk arises from uncertainty about future prices of financial instruments used in the company's business. It represents the potential loss the company might suffer through holding market positions by way of price movements, interest rate movements and exchange rate movements. The investment manager assesses the exposure to market risk when making each investment decision and these risks are monitored by the investment manager on a regular basis and the board at quarterly meetings with the investment manager.

Market price risk

Market price risk (i.e. changes in market prices other than those arising from currency risk or interest rate risk) may affect the value of investments.

The board manages the risks inherent to the investment portfolio by ensuring full and timely reporting of relevant information from the investment manager, including investment performance and exposure, which are reviewed at each board meeting.

The company's exposure to changes in market prices as at 28 February 2023 on its equity investments held at fair value through profit or loss was £32,764,000 (2022: £35,017,000).

The board has considered the market volatility, arising as a result of the coronavirus pandemic, Ukrainian conflict and recent collapse of Silicon Valley Bank and Signature Bank, in determining the reasonably possible market movements that might be possible, in order for such movements to be reflected in a sensitivity analysis. It is considered that a 10% increase and a 50% decrease in market prices are appropriate levels. A 10% increase in market prices of its investments at 28 February 2023 would have increased net assets attributable to shareholders by £3.3 million (2022: £3.5 million). A 50% decrease in the market prices of its investments would have decreased the net assets and distributable reserves attributable to shareholders by £16.4 million (2022: £17.5 million). The analysis is based on closing balances only and is not representative of the period as a whole.

Interest rate risk

The company currently receives marginal interest on its cash deposits; therefore, interest rate movements are not expected to have a material impact on the level of cash deposits held by the company.

The company's financial assets may include investment in fixed interest securities, such as UK Corporate debt, whose fair value may be affected by movements in interest rates. The majority of the company's financial assets and liabilities, however, are either subject to a fixed rate of interest or are non-interest bearing. As a result, the company's financial assets and liabilities are not subject to significant amounts of risk due to fluctuations in market interest rates. There was no exposure to interest bearing liabilities during the year ended 28 February 2023 (2022: none).

The possible effects on the fair value and cash flows that could arise as a result of changes in interest rates are taken into account when making investment decisions. The board imposes borrowing limits to ensure gearing levels are appropriate to market conditions.

As at 28 February 2023, the company held the following interest-bearing securities:

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Real Good Food Loan Notes	3,948	4,424
Norman Broadbent Loan Notes	215	-

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

14. Analysis of financial assets and liabilities (continued)

Interest rate risk (continued)

The exposure, at 28 February 2023, of financial assets and liabilities to interest rate risk is shown by reference to:

- ▶ floating interest rates – when the rate is due to reset; and
- ▶ fixed interest rates – when the financial instrument is due for repayment.

An analysis of the company's exposure to fixed interest rates, as at 28 February 2023, is shown below:

	28 February 2023				28 February 2022			
	1 year	1 to 2 years	2 to 3 years	Total	1 year	1 to 2 years	2 to 3 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Exposure to fixed interest rates:								
Real Good Food Loan Notes	-	3,948	-	3,948	-	4,424	-	4,424
Norman Broadbent Loan Notes	-	215	-	215	-	-	-	-
Total	-	4,163	-	4,163	-	4,424	-	4,424

The fair values of the loan notes issued to Real Good Food and Norman Broadbent have been assessed using a discounted cash flow valuation methodology which takes into consideration the performance of the borrower and the characteristics of the instruments, as well as comparable market rates which reflect the company's cost of capital and the risk profile of similar loans. If the discount rates applied in assessing the fair values of the loan note investments were increased by 2%, the fair values of the loan notes, and therefore the net assets attributable to shareholders, would have reduced by £72,000 (2022: £92,000). If the discount rates decreased by 2%, the net assets attributable to shareholders would increase by £106,000 (2022: £96,000).

As the company has no exposure to floating interest rates, the Interest Rate Benchmark Reform has had no impact on its assets and liabilities.

Foreign currency risk

The company's assets, liabilities, income, and expenses are denominated in Sterling, being the functional currency of the company. Accordingly, the only currency exposure the company has is through the trading activities of its investee companies.

Liquidity risk

The company's assets, liabilities, income, and expenses are denominated in Sterling, being the functional currency of the company. Accordingly, the only currency exposure the company has is through the trading activities of its investee companies.

Credit and counterparty risk

Credit risk is the risk of financial loss to the company if the contractual party to a financial instrument fails to meet its contractual obligations.

Credit risk arises from two main sources. Firstly, the possibility that the issuer of a security will be unable to pay interest and principal in a timely manner. Secondly, there is the possibility of default of the issuer. Adhering to investment guidelines and avoiding excessive exposure to one particular issuer or scheme can limit credit risk.

The maximum exposure to credit risk as at 28 February 2023 was £5,743,000 (2022: £8,270,000). The calculation is based on the company's credit risk exposure as at 28 February 2023 and this may not be representative for the whole period.

	28 February 2023	28 February 2022
	£'000	£'000
Dividends receivable	75	48
Cash and cash equivalents	1,505	3,798
Unquoted loan notes	4,163	4,424
Total	5,743	8,270

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

14. Analysis of financial assets and liabilities (continued)

Credit and counterparty risk (continued)

Credit risk relating to unquoted loan notes is considered to be part of market risk.

The company's quoted investments are held on its behalf by The Northern Trust company, acting as the company's custodian. Bankruptcy or insolvency of the custodian may cause the company's rights with respect to securities held by the custodian to be delayed. The board monitors the company's risk by reviewing the custodian's internal controls report.

Investment transactions are carried out with a number of brokers whose creditworthiness is reviewed by the investment manager. Transactions are ordinarily undertaken on a delivery versus payment basis whereby the company's custodian bank ensures that the counterparty to any transaction entered into by the company has delivered on its obligations before any transfer of cash or securities away from the company is completed.

Cash is only held at banks that have been identified by the board as reputable and of high credit quality.

None of the company's assets are past due or impaired.

15. 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.

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).

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

15. Fair value hierarchy (continued)

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	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
28 February 2023				
Quoted on the Main Market	6,392	-	-	6,392
Traded on AIM	25,612	-	-	25,612
Unquoted Loan Notes (including interest held at FVTPL)	-	-	4,163	4,163
Unquoted Equity	-	-	760	760
	32,004	-	4,923	36,927
28 February 2022				
Quoted on the Main Market	4,954	-	-	4,954
Traded on AIM	28,431	-	-	28,431
Unquoted Loan Notes (including interest held at FVTPL)	-	-	4,424	4,424
Unquoted Equity	-	-	1,632	1,632
	33,385	-	6,056	39,441

There were no transfers between Levels during the period. A reconciliation of fair value measurements in Level 3 is set out in the table below.

	Year ended 28 February 2023 £'000	Year ended 28 February 2022 £'000
Opening balance	6,056	8,999
Purchases	343	1,920
Sales	-	(5,593)
UK Fixed interest income at FVTPL (notes 3, 9)	380	351
Receipt of UK fixed interest income	-	(1,162)
Impairment of accrued loan note interest receivable (note 9)	(1,196)	-
Total gains or losses included in losses on investments in the Statement of Profit or Loss and Other Comprehensive Income:		
- on assets sold	-	910
- on assets held at the period end	(660)	631
Closing balance	4,923	6,056

Significant unobservable inputs for Level 3 valuations

The fair values of the unquoted loan notes and associated interest are established with reference to IPEV Guidelines using a discounted cash flow methodology which involves the use of unobservable inputs. Unobservable inputs include all relevant financial and non-financial information regarding the borrower, the expected dates of any partial or full redemptions and any risk-adjusted inputs which might be obtained from comparable companies. The fair values of the unquoted loan notes are highly sensitive to changes in the timing and amounts of future cash flows, and as a result the directors carefully consider a range of possible scenarios in assessing fair values.

16. Capital management

The company's capital is as disclosed in the statement of financial position and is managed on a basis consistent with its investment objective and policies, as set out on the inside front cover and in the Strategic Report on pages 42 to 43. The principal risks and their management are disclosed in the Strategic Report.

Notes to the Financial Statements (continued)

for the year ended 28 February 2023

17. Significant interests

As at 28 February 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	12.01%
FireAngel Safety Technology plc	11.07%
Synectics plc	10.80%
Real Good Food Company plc	7.52%
Journeo plc	6.63%
AdEPT Technology Group plc	4.93%
Centaur Media plc	4.56%
Flowtech Fluidpower plc	4.51%
Theworks.co.uk plc	4.48%
Ramsdens Holdings plc	3.74%
National World plc	3.58%

18. Related parties and Investment Manager

Investment Manager

Downing LLP is the investment manager to the company. The relationship is governed by an agreement dated 23 March 2017.

The total investment management fee charged by Downing LLP for the period ended 28 February 2023 was £309,000 (2022: £385,000). The amount outstanding as at 28 February 2023 was £26,000 (2022: £123,000).

During the year under review, Judith MacKenzie was a non-executive director of Real Good Food plc, in which the company has an investment. An annual fee of £25,000 is paid to Downing LLP for Judith's services as a director of Real Good Food plc.

Administrator and Company Secretary

On 1 April 2020, Downing LLP was appointed as administrator to the company and Grant Whitehouse, a Downing LLP partner, was appointed as Company Secretary. During the period from 1 April 2022 to 28 February 2023, total fees of £79,000 (2022: £79,000) (inclusive of VAT where applicable) were charged by Downing LLP in connection with the provision of the Administration, AIFM Support and company secretarial services set out in the Downing LLP Administration Agreement. As at 28 February 2023, the amount outstanding was £6,000.

Directors

Disclosure of the directors' interests in the Ordinary Shares of the company and fees and expenses payable to the directors are set out in the Directors' Remuneration Report on pages 63 to 66. At 28 February 2023, there were no outstanding directors' fees (2022: none).

19. Contingent liabilities

There were no contingent liabilities at 28 February 2023 (2022: none).

20. Non-adjusting events after reporting date

In the period between 28 February 2023 and midday on the date of this report, the following non-adjusting events took place:

- ▶ The company purchased 703,397 of its own Ordinary Shares, at an average price of 64.55 pence per share, all of which are now held in treasury.

Shareholder information

Financial Calendar

Company's year end	28 February
Annual Results announced	2 May 2023
Annual General Meeting	6 July 2023
Company's half-year end	31 August 2023
Half-yearly results announced	October/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 a Regulatory Information Service and is also available through the AIC website.

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 account information.

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.

Glossary

Discount and premium

If the share price of an investment trust is lower than the net asset value ('NAV') per share, the shares are trading at a discount to NAV. In this circumstance the price that an investor pays or receives for a share would be less than the value attributable to it by reference to the underlying assets. The discount is the difference between the share price (based on mid-market share prices) and the NAV, expressed as a percentage of the NAV.

A premium occurs when the share price is above the NAV. Investors would therefore be paying more than the value attributable to the shares by reference to the underlying assets.

Discounts and premia are generally the consequence of supply and demand for the shares on the stock market.

Gearing

Gearing is the process whereby a company can borrow to purchase additional investments with the expectation that the return on the investments purchased will exceed the interest cost of the borrowings.

Gearing is calculated by dividing total assets less cash or cash equivalents by shareholders' funds expressed as a percentage.

Intrinsic value

The actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business in terms of both tangible and intangible factors. This value may or may not be the same as the current market value.

Intrinsic value is a core concept to value investors that seek to uncover hidden investment opportunities.

Margin of safety (safety margin)

The difference between the intrinsic value of a stock and its market price.

Net asset value per Share ('NAV') per Ordinary Share

The NAV is shareholders' funds expressed as an amount per individual share. Equity shareholders' funds are the total value of all of the company's assets, at current market value, having deducted all current and long-term liabilities and any provision for liabilities and charges.

The NAV is published daily.

Ongoing charges

Ongoing charges are expenses of a type that are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing costs and gains or losses arising on investments.

Ongoing charges are based on costs incurred in the year as being the best estimate of future costs and include the annual management charge. The calculation methodology is set out by the Association of Investment Companies.

Revenue return per share

The revenue return per share is the revenue return profit for the year divided by the weighted average number of ordinary shares in issue during the year.

Total return performance

This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends and interest paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the company's assets (for NAV total return).

Contact details of the 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

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 702 0003

Custodian

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

Broker

finnCap Limited
1 Bartholomew Close
London EC1A 7BL

Auditor

BDO LLP
55 Baker Street
London W1U 8EW

Company number: 10626295

Annual General Meeting

Notes in respect of special business at the Annual General Meeting

Resolutions relating to the following items of special business will be proposed at the forthcoming AGM to be held on 6 July 2023:

Resolution 7

Authority to allot shares

The directors may only allot shares for cash if authorised to do so by shareholders in a general meeting. This resolution seeks to renew the authority of the directors to allot ordinary shares for cash up to an aggregate nominal amount of £2,424 (or such other amount as shall be equivalent to 5% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of AGM). This provides the company with some flexibility if a situation were to arise where the board may consider issuing some new shares.

Resolution 8

Authority to disapply pre-exemption rights

By law, directors require specific authority from shareholders before allotting new shares or selling shares out of treasury for cash without first offering them to existing shareholders in proportion to their holdings. Resolution 7 empowers the directors to allot new ordinary shares for cash or to sell shares held by the Company in treasury, otherwise than to existing shareholders on a pro rata basis, up to an aggregate nominal amount of £2,424 (or such other amount as shall be equivalent to 5% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of the Notice of AGM).

Resolution 9

Authority to make market purchase of the company's shares

The resolution to be proposed will seek to renew the authority granted to directors enabling the Company to purchase its own shares. The directors will only consider repurchasing shares in the market if they believe it to be in shareholders' interests and as a means of correcting any imbalance between supply and demand for the Company's shares. The directors are seeking authority to purchase up to 7,222,507 (being the equivalent of 14.99% of the issued ordinary share capital (excluding treasury shares) or such other amount as shall be equivalent to 14.99% of the Company's issued ordinary share capital (excluding treasury shares) as at the date of passing the resolution). This authority will expire at the conclusion of the AGM to be held in 2024 unless renewed prior to that date. Any ordinary shares purchased pursuant to Resolution 9 shall be cancelled immediately upon completion of the purchase or held, sold, transferred or otherwise dealt with as treasury shares in accordance with the provisions of the Companies Act 2006.

Notice of Annual General Meeting

Notice is hereby given that the sixth Annual General Meeting of Downing Strategic Micro-Cap Investment Trust plc will be held at 12:00 pm on 6 July 2023, at 6th Floor, St. Magnus House, 3 Lower Thames Street, London, EC3R 6HD.

If you wish to attend the meeting, please register by sending an email to dsmagm@downing.co.uk stating that you wish to register for the AGM.

The following business will be dealt with at the meeting:

Ordinary business

1. To receive the Directors' Report and the Financial Statements for the year ended 28 February 2023 with the report of the Auditor thereon.
2. To approve the Directors' Remuneration Report for the year ended 28 February 2023.
3. To re-elect Robert Legget as a director.
4. To re-elect William Dawkins as a director.
5. To re-appoint BDO LLP as auditor to the company to hold office from the conclusion of the annual general meeting of the company until the conclusion of the next general meeting at which financial statements are laid before the company.
6. To authorise the Audit Committee to determine the auditor's remuneration.

Special business

Ordinary resolution

7. That the directors of the company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted), in accordance with Section 551 of the Companies Act 2006 (the Act) to exercise all the powers of the company to allot relevant securities (within the meaning of Section 551 of the Act) up to an aggregate nominal amount of £2,424, representing approximately 5% of the company's issued ordinary share capital (excluding treasury shares) as at the date of this notice provided that this authority shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2024 unless renewed at a general meeting prior to such time, save that the company may before such expiry make offers, agreements or arrangements which would or might require relevant securities to be allotted after such expiry and so that the directors of the company may allot relevant securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired.

Notice of Annual General Meeting (continued)

Special resolutions

8. THAT subject to the passing of Resolution 7 above, the directors of the company be and are hereby empowered pursuant to sections 570 and 573 of the Companies Act 2006 (the Act) to allot and make offers of agreement to allot equity securities (within the meaning of Section 560 of the Act) and to sell equity securities held by the company as treasury shares (as defined in section 724 of the Act) for cash pursuant to the authority conferred by Resolution 7 above as if Section 561(1) of the Act did not apply to any such allotment and sales of equity securities, provided this authority:
- a. shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2024 save that the company may before such expiry make offers, agreements or arrangements which would or might require equity securities to be allotted or sold after such expiry and so that the directors of the company may allot and sell equity securities in pursuance of such offers, agreements or arrangements as if the authority conferred hereby had not expired;
 - b. shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury for cash up to an aggregate nominal amount of £2,424, representing approximately 5% of the company's issued ordinary share capital (excluding treasury shares) as at the date of this notice; and
 - c. shall be limited to the allotment of equity securities and/or sale of equity securities held in treasury at a price not less than the cum income net asset value per share as close as practicable to the allotment or sale.
9. THAT in substitution of any authorities previously granted to make market purchases of ordinary shares of 0.1 pence in the company (Ordinary Shares), the company be, and it is hereby authorised in accordance with section 701 of the Companies Act 2006 (the Act) to make market purchases of ordinary shares (within the meaning of section 693 of the Act) provided that:
- a. the maximum number of Ordinary Shares hereby authorised to be purchased is 7,266,133 (being the equivalent of 14.99% of the issued ordinary share capital (excluding treasury shares) or such other amount as shall be equivalent to 14.99% of the company's issued ordinary share capital (excluding treasury shares) as at the date of passing the resolution;
 - b. the minimum price (exclusive of expenses) which may be paid for an Ordinary Share shall be the nominal value per share;
 - c. the maximum price (exclusive of expenses) which may be paid for any such ordinary share shall be the higher of (i) 105% of the average of the middle market quotations (as derived from the Official List) of the ordinary shares for the five dealing days prior to the date on which the market purchase is made and (ii) the higher of the price quoted for (a) the last independent trade of and (b) the highest current independent bid for, any number of ordinary shares on the trading venue where the purchase is carried out; and
 - d. unless revoked, varied or renewed prior to such time, the authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the company to be held in 2024 save that the Company may, prior to such expiry enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after such expiry.

Notice of Annual General Meeting (continued)

All Ordinary Shares purchased pursuant to the above authority shall either be:

- (i) held, sold, transferred, or otherwise dealt with as treasury shares in accordance with the provisions of the Act; or
- (ii) cancelled immediately upon completion of the purchase.

Dated 5 May 2023

By Order of the Board



Grant Whitehouse
Secretary

Registered Office:
St Magnus House,
3 Lower Thames Street,
London
EC3R 6HD

Notice of Annual General Meeting (continued)

Notes

- i. This Notice of Annual General Meeting (AGM) is sent to holders of Ordinary Shares, all of whom are entitled to attend, speak, and vote at the above AGM.
- ii. Members entitled to attend and vote at the AGM are also entitled to appoint one or more proxies to exercise all or any of their rights to attend and speak and vote on their behalf. Where multiple proxies are appointed, they must be appointed to exercise the rights in relation to different ordinary shares. Proxies need not be members of the company.
- iii. A form of proxy is sent to members with this notice. To be valid the form of proxy and any power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of that power of attorney or authority) must be completed and returned to the office of the company's registrar as soon as possible but so as to arrive no later than 12:00 pm on 4 July 2023. Where multiple proxies are being appointed additional forms should be obtained from the company's registrar and a separate form completed for each proxy identifying that the proxy is a multiple form and the different ordinary shares that each proxy represents. Completion and return of form(s) of proxy will not preclude a member from attending, speaking, and voting in person at the AGM.
- iv. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) thereof by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
- v. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by the issuer's agent Computershare (ID: 3RA50) by 12:00 pm on 4 July 2023. In this respect the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message in the manner prescribed by CREST.
- vi. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by the particular time the CREST member requires.
- vii. The company may treat as invalid a CREST proxy instruction in the circumstances set out in regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
- viii. A person who is not a member of the company and receives this notice of meeting as a person nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 ("Act") does not have a right to appoint proxies. However, if a nominated person has an agreement with the member who nominated them, the nominated person may have a right to be appointed as a proxy or a right to instruct the member as to the exercise of voting rights at the AGM.
- ix. Shareholders entered on the register of members of the company at the close of business on 4 July 2023, or the close of business on the day two days prior to the time of an adjourned meeting, shall be entitled to attend and vote at the AGM. Any changes to the register of members after such dates shall be disregarded in determining the rights of any shareholders to attend and vote at the AGM.

Notice of Annual General Meeting (continued)

- x. Under section 319(A) of the Act, the company must cause to be answered any question relating to the business being dealt with at the AGM put by a member attending the AGM unless answering the question would interfere unduly with the preparation for the meeting, would involve the disclosure of confidential information, an answer has already been given on a website, or is undesirable in the interests of the company or the good order of the AGM.
- xi. Members may not use any electronic address provided in this notice or any related document(s) to communicate with the company for any purpose other than as specifically stated.
- xii. As at 4 May 2023, the latest practicable date prior to the publication of this notice, the company's issued share capital comprised 51,734,305 ordinary shares of 0.1 pence each, of which 3,261,103 are held in treasury and 1 non-redeemable preference management share of 1 penny which carries no voting rights. Each ordinary share carries a right to one vote at general meetings of the company and accordingly the total number of voting rights in the company as at 4 May 2023 is 48,473,202.
- xiii. Information regarding the AGM, including the information required by Section 311A of the Act, can be found on the company's website at www.downingstrategic.co.uk.
- xiv. No director has a service agreement with the company. Directors' letters of appointment can be viewed by contacting the company secretary.
- xv. Member(s) have a right in accordance with Section 338 of the Act to require the company to give to members of the company entitled to receive the above notice of meeting, notice of any resolution which they may properly move at the meeting. Under Section 338A of the Act member(s) may request the company to include in the business to be dealt with at the meeting any matter, other than a proposed resolution, which may be properly included in that business.
- xvi. Members may require the company, under section 527 of the Act, to publish on a website a statement setting out any matter relating to the audit of the company's financial statements being laid before the meeting, including the auditor's report and the conduct of the audit at the company's expense. Where the company is required to place such a statement on a website it must forward the statement to the auditor not later than the time it makes the statement available on that website and include the statement in the business to be dealt with at the meeting.



May 2023

DSM3098

St Magnus House
3 Lower Thames Street
London EC3R 6HD

020 7416 7780
customer@downing.co.uk
www.downingstrategic.co.uk

Downing LLP is authorised and regulated by the Financial Conduct Authority