

# Downing AIM NISA

April 2016

## About Downing AIM NISA

The Downing AIM NISA (*DNISA*) provides investors with the opportunity to combine NISA tax benefits with IHT relief by investing in AIM shares that carry on an IHT-qualifying trade\*. Our strategy enables investors to maintain control of their assets (no need for trusts or to gift assets to obtain IHT relief) and to withdraw funds from their portfolio at any time, subject to liquidity.

The Downing AIM NISA diversifies risk by investing in a portfolio of at least 20 companies across a variety of sectors, and has a similar strategy to our flagship OEIC, the MI Downing UK Micro-Cap Growth Fund.

The service also benefits from Downside Protection Insurance, covering the first 20% of any loss (net of initial investment) for investors aged less than 90 years at the date of death, at no extra cost - with no medical exclusions or questionnaires. Please note, this is an annual policy and there is no guarantee that it will remain in place throughout the life of the investment.

*\*Provided the shares have been held for at least two years at death*

## Why Downing small-cap?

- ▶ Experienced & qualified Public Equity team of 8 executives, headed by Judith MacKenzie
- ▶ Private equity approach to micro cap investing, drawing on our private equity and venture capital heritage
- ▶ Investment Committee oversight provides access to 100+ years of investment experience
- ▶ Value strategy with rigorous bottom up approach
- ▶ Exhaustive diligence process that can take up to 18 months
- ▶ Concentrated portfolio of 20 - 30 investments, which we believe provides optimal diversification and access to strategic investments
- ▶ Only invests in profitable businesses with strong management teams and a sustainable competitive advantage

## Market commentary

Positive contributors to performance in the period include Produce Investments Plc and Conviviality Retail Plc. Produce Investments Plc produces and distributes fresh potatoes and daffodils. They reported a pleasing set of half year results in March, highlighting an increase in profit compared to 2014 along with a respectable reduction in net debt. A more balanced supply and demand dynamic has led to favourable pricing movements on the crops yielded. As a result, Investec upgraded their price target which has contributed to the share price increase. Conviviality Retail Plc predominantly operates under the Bargain Booze Select Convenience and Wine Rack brands and owns the UK's largest franchised off-licence and convenience chain, with more than 600 stores. The share price has increased since our initial investment and since they announced the acquisition of Matthew Clark, the UK's largest alcohol wholesaler, providing Conviviality with scale and leverage of supplier relationships and management.

The portfolios were affected in the period by the wider market selloff and losses from portfolio companies such as Hornby Plc and Sprue Aegis Plc. Hornby Plc is one of the UK's most recognisable toy brands in the model railway hobby, with a product portfolio including Hornby Trains, Scalextric and AirFix. The company recently announced that it would fall into a loss making position, underlining management's failure to implement operational changes in the time that was expected by the market. We believe that there is still inherent value in Hornby's products and believe management changes will enable this to be realised. Sprue Aegis Plc designs, sells and markets smoke and carbon monoxide detectors. In March, they issued an update on supply terms from their major manufacturing partner, which will result in operating profit slightly below market expectations. This update does not affect the basis of our investment case and we look forward to seeing another strong set of numbers in the next release.

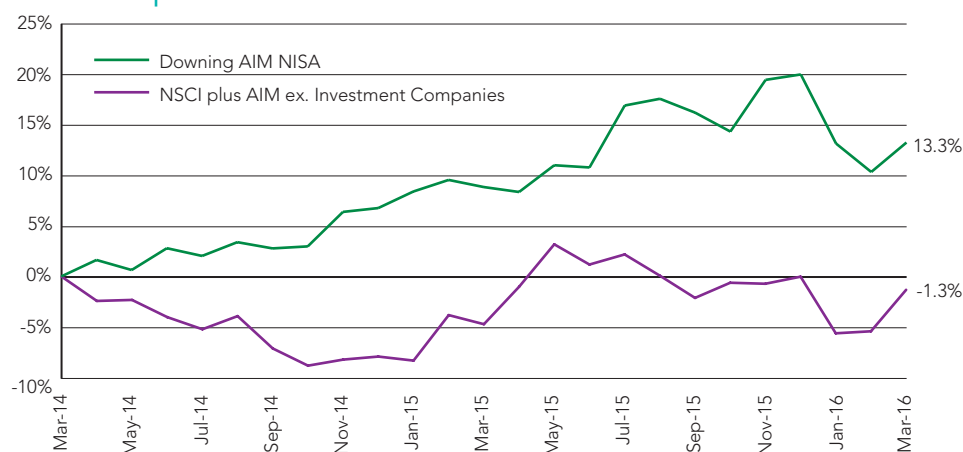
*Please note that not all portfolios contain the holdings mentioned above.*

## Performance

*Gross performance shown is for the first investor in DNISA*

In the three months to March, the Service lost 5.6% compared to the benchmark which lost 1.3%. Since launch the Service has returned 13.3% compared to the benchmark's -1.3%, a satisfying outperformance. Our investment strategy focuses on long term returns and we are pleased to see this delivered.

## Cumulative performance



Cumulative performance (%)								
	1m	3m	6m	YTD	1y	3y	5y	Launch
Fund	2.66	-5.63	-2.55	-5.63	4.08	N/A	N/A	13.32
Index	4.30	-1.27	0.86	-1.27	3.56	N/A	N/A	-1.28

Discrete performance (%)					
	31/03/2015	31/03/2014	31/12/2013	31/12/2012	31/12/2011
	31/03/2016	31/03/2015	31/12/2014	31/12/2013	31/12/2012
Fund	4.08	8.89	N/A	N/A	N/A
Index	3.56	-4.67	N/A	N/A	N/A

*DNISA launched in March 2014. The Index is shown for illustrative purposes only and is not considered directly comparable to the performance of this Service. Index: Numis Smaller Companies Index Plus AIM Ex. Investment Companies. Source of Service data: Brooks MacDonald. Source of Index data: Thomson Reuters. Past performance is not a reliable indicator of future performance.*

## Portfolio by sector\*\*



18.22%	Food & beverage	4.82%	Telecom services
8.99%	Industrial goods & services	4.32%	Software
14.01%	Technology	4.93%	Cash
6.94%	Personal & household goods	3.07%	Financial services
8.06%	Real estate	3.22%	Chemicals
8.14%	Technology hardware	2.82%	Media
6.92%	Health care	5.52%	General retailers

## Portfolio by company size\*\*



### Market Cap bands

33.69%	£0m - £50m
26.87%	£50m - £100m
19.61%	£100m - £150m
9.20%	£150m - £200m
10.63%	£200m+

Top 5 portfolio holdings**	%
Conviviality Retail PLC	5.52
Produce Investments PLC	5.29
Adept Telecom PLC	4.82
Science in Sport Ltd	4.52
Finsbury Food Group PLC	4.45

\*\*As at 31 March 2016, Source: Brooks Macdonald, based on the first investor in DNISA

## Lead Fund Manager: Judith MacKenzie

Judith joined Downing in 2009, and is a Partner and Head of Downing Public Equity. Previously she was a Partner at Acuity Capital, managing AIM-quoted VCT & IHT investments, and a small-cap activist fund.

Prior to this, Judith spent seven years as a senior investment manager with Aberdeen Asset Managers Growth Capital and co-managed the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas.

She has held various non-executive and advisory roles in Scottish Government and private companies, and is a Fellow of the Securities Institute.



**Risk warning:** your capital is at risk, and you may not get back the full amount invested. Tax treatment depends on the individual circumstances of each investor and may be subject to change. The availability of tax reliefs depends on investee companies maintaining their qualifying status. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Return is the total return (value of the investments plus cash including income after all expenses and charges), ignoring taxation. Please note that past performance is not a guide to future performance.

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