

Downing AIM ISA

July 2016

About Downing AIM ISA

The Downing AIM ISA (*DISA*) provides investors with the opportunity to combine ISA 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 ISA 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

The portfolio was affected in the period by the UK's vote to leave the EU. Smaller companies, where we invest, sold off as market participants factored in an increasing amount of uncertainty and the potential of a UK recession. Whilst our companies are not immune to sentiment and macro headwinds, we believe that our rigorous process and value led approach should continue to drive investor returns over the long term.

Universe Group PLC, the payment and online loyalty solutions and systems business for the UK petrol forecourt and convenience stores, rallied strongly in the three months having reported good results in April. We are long term holders of Universe, a belief that is bolstered by a high quality business in terms of earnings, operating model and management team.

In April, Sprue Aegis, the manufacturer and distributor of smoke and carbon monoxide alarms, announced that they were increasing their warranty provision to £6.8m due to a battery fault from a third party supplier which causes a premature low battery alert. They also noted tougher than expected trading conditions in France, due to overstocking by distributors, and Germany, as a result of certification delays. The combination of these unforeseen developments led management to revise guidance downwards. We met with management shortly afterwards, and Sprue has since announced that it has received certification for its new battery product in Germany, with shipments expected to commence imminently. We believe the overall demand for Sprue products and its market position have not changed over the long term, although the share price has clearly been affected by these production issues.

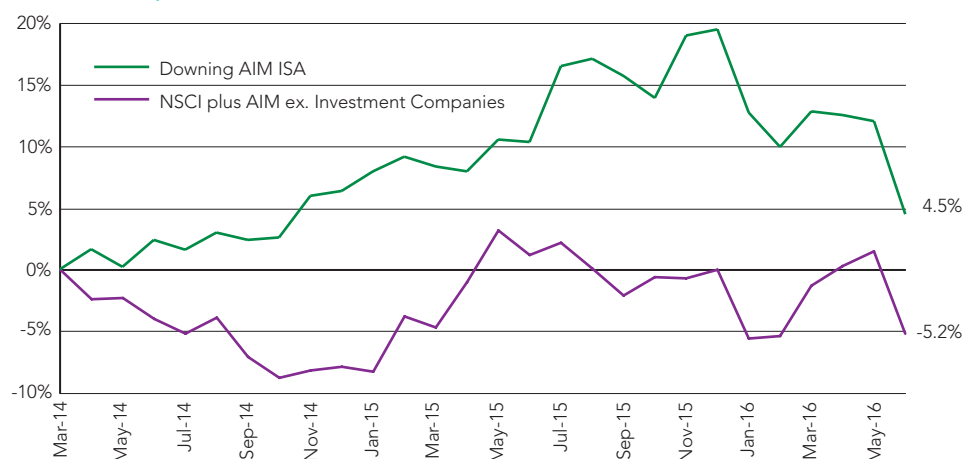
Please note that not all portfolios contain the holdings mentioned above.

Performance

Gross performance is the performance of the first investor's portfolio before charging fees. Fees include initial charges (including adviser charges facilitated by Downing) and annual management fees paid to Downing for the provision of the portfolio management service. The gross performance is therefore the true historic performance achieved by the investment team before the deduction of costs of providing the service.

In the three months to the end of June, the Service has underperformed the benchmark by 3.48%, returning -7.45% compared to the benchmark's -3.97%. This is in contrast to the 4.5% returned since launch compared to the benchmark's -5.2%.

Cumulative performance



Cumulative performance (%)

	1m	3m	6m	YTD	1y	3y	5y	Launch
Fund	-6.78	-7.45	-12.68	-12.68	-5.36	N/A	N/A	4.48
Index	-6.59	-3.97	-5.19	-5.19	-6.33	N/A	N/A	-5.20

Discrete performance (%)

	30/06/2015 30/06/2016	30/06/2014 30/06/2015	30/06/2013 30/06/2014	30/06/2012 30/06/2013	30/06/2011 30/06/2012
Fund	-5.36	7.84	N/A	N/A	N/A
Index	-6.33	5.44	N/A	N/A	N/A

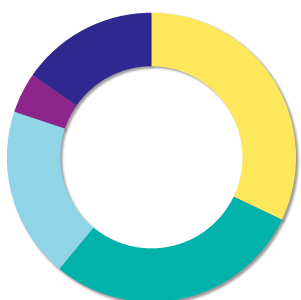
DISA launched in March 2014. The Index is shown for illustrative purposes only and is not considered directly comparable to the performance of this Service. Index: Numis Smaller Companies Index Plus AIM Ex. Investment Companies. Source of Service data: Brooks MacDonald. Source of Index data: Thomson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

Portfolio by sector**



17.25%	Food & beverage	3.94%	Software
8.85%	Industrial goods & services	1.07%	Cash
13.65%	Technology	3.01%	Financial services
8.00%	Personal & household goods	3.20%	Chemicals
7.32%	Real estate	2.62%	Media
9.49%	Technology hardware	4.87%	Oil and gas
7.09%	Health care	3.91%	General retailers
5.73%	Telecom services		

Portfolio by company size**



Market Cap bands	
32.10%	£0m - £50m
28.89%	£50m - £100m
19.14%	£100m - £150m
4.50%	£150m - £200m
15.38%	£200m+

Top 5 portfolio holdings**	%
Adept Telecom PLC	5.73
Universe Group PLC	5.13
Smart Metering Systems PLC	4.87
Finsbury Food Group Ltd	4.58
Science in Sport PLC	4.55

**As at 30 June 2016, Source: Brooks Macdonald, based on the first investor in DISA

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 before all expenses and charges), ignoring taxation. Please note that past performance is not a guide to future performance.

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Important notice

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