

Downing AIM ISA

February
2017

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 and 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

Key contributors to performance in the three-month period to 31 December 2016 were Lok'nStore (up 28.92%), Amino Technologies (up 23.04%) and Adept Technologies (up 15.79%). Key detractors from the portfolio were Hornby Plc (down 19.44%), Inland Homes (down 6.61%) and Universe Group (down 5.48%).

Lok'nStore traded well following the release of their preliminary results in October. The company reported a year of strong trading, the opening of three new stores and the acquisition of new sites. Other positive news included the company's low level of debt with the proposed dividend increase of 12.5%. Amino's share price reacted positively to their December trading update. The company has also benefited from favourable foreign exchange rates and has a good order book for their strong product offering. Adept had a positive half-year report; highlights included revenue up by 19%, EBITDA up by 20% and an increasing proportion of revenues coming from managed services.

Hornby's share price fell following changes in management and the release of their interim results. The company indicated that revenue would continue to decline significantly year-on-year in the second half as planned rationalisation of certain aspects of the business take place. Inland Homes' share price fell on slightly weaker financial results, however NAV had increased 30% in the year which is the basis of our valuation. In November, the house builder announced a joint venture with Anderson Group to develop 43 new homes on a three-acre site in Essex. This is the first phase of a larger project with scope for development of around 800 homes. Universe's share price fell following the September release of their interim results, where management cautioned that financial performance for 2016 would be below expectations owing to a delay in new product roll-out. We remain confident in the strength of Universe's point of sale, payment and on-line loyalty systems and the traction that they continue to gain in the market.

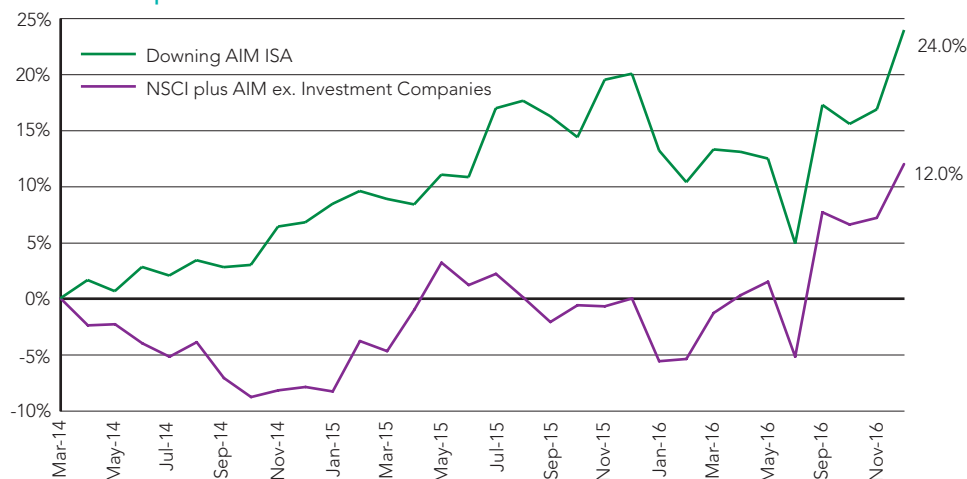
Please note that not all portfolios contain the holdings mentioned above.

Performance

The net performance is the performance of the first investor's portfolio after deducting all charges excluding any initial fee.

In the three months to 31 December 2016, the Fund has returned 5.7%, compared with an index return of 4.0.

Cumulative performance

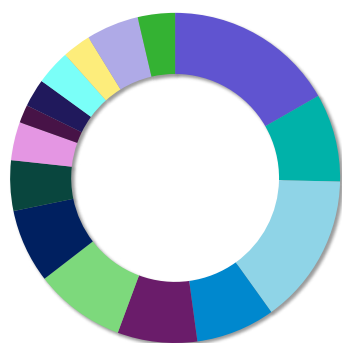


Cumulative performance (%)								
	1m	3m	6m	YTD	1y	3y	5y	Launch
Fund	6.07	5.73	24.79	7.41	7.41	N/A	N/A	24.00
Index	4.45	4.00	18.14	12.01	12.01	N/A	N/A	12.00

Discrete performance (%)					
	31/12/2015 31/12/2016	31/12/2014 31/12/2015	31/12/2013 31/12/2014	31/12/2012 31/12/2013	31/12/2011 31/12/2012
Fund	7.41	10.11	N/A	N/A	N/A
Index	12.01	8.58	N/A	N/A	N/A

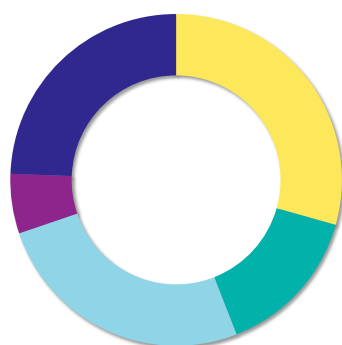
DISA launched in March 2014. The Index is shown for illustrative purposes only and is not considered directly comparable to the performance of this Service. Index: Numis Smaller Companies Index Plus AIM Ex. Investment Companies. Source of Service data: Brooks MacDonald. Source of Index data: Thomson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

Portfolio by sector**



16.73%	Food & beverage	3.75%	Software
8.63%	Industrial goods & services	1.73%	Cash
14.75%	Technology	2.75%	Financial services
7.75%	Personal & household goods	3.42%	Chemicals
7.81%	Real estate	2.80%	Media
8.90%	Technology hardware	5.15%	Oil and gas
7.24%	Health care	3.65%	General Retailers
4.94%	Telecom services		

Portfolio by company size**



Market Cap bands

29.38%	£0m - £50m
14.68%	£50m - £100m
25.72%	£100m - £150m
5.80%	£150m - £200m
24.42%	£200m+

Top 5 portfolio holdings**	%
Craneware PLC	5.58
Science in Sport PLC	5.57
Amino Technologies PLC	5.45
Lok'nStore Group	5.15
Smart Metering Systems	5.15

**As at 31 December 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 value of investments, plus cash, including income, after deducting all charges, excluding any initial fee. Please note that past performance is not a guide to future performance.

9 February 2017



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Important notice

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