

MI Downing UK Micro-Cap Growth Fund

March
2019

About the Fund

MI Downing UK Micro-Cap Growth Fund ("the Fund") aims to invest in a concentrated portfolio of between 25-30 UK companies within the Numis Smaller Companies Indices - typically those with market capitalisations between £20 million and £150 million.

The Fund seeks to generate capital growth, whilst retaining a strong focus on capital preservation. The Fund aims to outperform returns from other UK small-cap equity funds by selecting investments that the Manager believes are undervalued by the market.

Why Downing Micro-Cap?

- ▶ Experienced and qualified team headed by Judith MacKenzie.
- ▶ Private equity approach to micro-cap companies, drawing on Downing's private equity and venture capital heritage.
- ▶ Investment Committee oversight provides access to many years of investment experience.
- ▶ Value strategy with rigorous bottom up approach.
- ▶ Exhaustive diligence process that can take up to 18 months.
- ▶ Concentrated portfolio of typically 25 to 30 investments which we believe provides diversification.
- ▶ Access to strategic investments.
- ▶ Only invests in profitable businesses with strong management teams and a sustainable competitive advantage.

Market commentary

In February, the Fund was down 2.92%, underperforming the benchmark, which was up 1.14%. Positive contributors included DX Group (up 16.13%) and Pennant International (up 4.89%). Detractors included Redhall (down 24.14%) and Gama Aviation (down 20.57%).

DX provided an update on trading that highlighted that the group continues to make encouraging progress with its turnaround and trading in the period has been in line with management expectations. DX is in a good position to drive further improvements and remains on track to return to positive EBITDA for the financial year.

Pennant announced the acquisition of Aviation Skills Holdings, the holding company for the Aviation Skills Partnership business (ASP). The board believes that ASP is highly complementary to the group's existing business and the acquisition will materially increase the proportion of group revenues from commercial aviation, diversify the group's business and add long-term recurring, contracted revenue to its order book.

Redhall made no material announcements during the period. However, on 31 January it reported widened losses and lower revenue as certain businesses within the group ceased operations. While the share price declined further in February, management believe that market conditions remain encouraging in the majority of the group's core sectors and it benefits from a secure order book and strong pipeline of opportunities.

Gama's share price fell as the group announced that it had identified the receipt of two overpayments, in error, from Gama Aviation LLC, its US Air associate. \$5.75 million and approximately \$2 million were received in June 2018 and December 2017 respectively and were reported in cash and trade creditors in the respective half and full year reporting periods. Both of these overpayments were re-paid in full.

Cumulative performance under Downing management



The graph shows the cumulative performance under Downing management (since Feb 2011)

| Cumulative performance - Class B Shares (%) | | | | | | | |
|---------------------------------------------|-------|-------|--------|-------|--------|-------|-------|
| | 1m | 3m | 6m | YTD | 1y | 3y | 5y |
| Fund | -2.92 | -7.20 | -13.14 | -4.21 | -14.80 | 7.13 | 24.57 |
| Index | 1.14 | 1.07 | -9.85 | 6.61 | -5.74 | 29.41 | 19.48 |

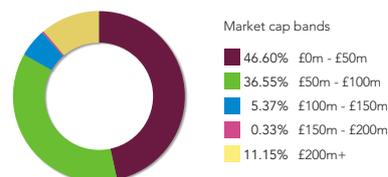
| Discrete performance - Class B Shares (%) | | | | | |
|-------------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 28/02/2018 28/02/2019 | 29/02/2017 28/02/2018 | 28/02/2016 29/02/2017 | 28/02/2015 28/02/2016 | 28/02/2014 28/02/2015 |
| Fund | -14.80 | -0.62 | 26.54 | -1.30 | 17.82 |
| Index | -5.74 | 11.10 | 23.57 | -1.62 | -6.16 |

Index: Numis Smaller Companies Index Plus AIM Excluding Investment Trusts. Source of all Fund data is Maitland Institutional Services, source of all index data is Numis. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index. **Downing is responsible for Fund performance from 4 Feb 2011, the effective date of the investment management mandate. Please note that past performance is not a reliable indicator of future results.**

Portfolio by sector



Portfolio by company size



Source of portfolio data: Factset as at 28 February 2019

Top 5 portfolio holdings

| Company | % of Fund |
|------------------------|-----------|
| Real Good Food | 10.50* |
| Norman Broadbent | 7.47** |
| Adept Technology Group | 5.82 |
| Pennant International | 5.65 |
| Ramsdens | 5.45 |

Source: Maitland Institutional Services as at 28 February 2019

*Holding includes a 0.71% equity and 9.79% debt split

**Holding includes a 6.36% equity and 1.11% debt split

Lead Fund Manager: Judith MacKenzie

Judith is a Partner at Downing, having joined in 2009. Previously, she was a Partner at Acuity Capital, managing AIM-quoted VCT & IHT investments and the CF Acuity RAM Fund.

Prior to this, Judith spent seven years as a senior investment manager with Aberdeen Asset Management Growth Capital, as co-Manager of the five Aberdeen VCTs, investing in both public and private companies.

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



Trustnet/F.E (for the three-year period to 31/01/2019)

Risk warning: your capital is at risk. Investments & the income derived from them can fall as well as rise and investors may not get back the full amount invested. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Performance figures above are taken from daily valuations provided by Maitland Institutional Services. Downing is responsible for Fund performance from 4 February 2011, the effective date of the investment mandate. 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.

Key facts as at 28 February 2019

Structure

London listed Open Ended Investment Company (OEIC), established as a "UCITS scheme".

Incorporation date & date of transfer to Downing and change of ACD

September 2008 / February 2011

Fund size

(B and C Share Class combined)
£18.5m

Share price

Class B 177.47p
Class C 113.29p

Number of company holdings

26*

Dividends

Accumulation only

Liquidity

Daily pricing and daily dealing

ISIN codes:

B Accumulation GB00B2403R79
C Accumulation GB00B7SB5C00

*This does not include the two holdings which have been written down to zero.

Minimum initial investment

B Accumulation - £1,000
C Accumulation - £1,000

B Share and C Share class monthly savings plan available. Monthly contributions of £100 can be made via standing order on the first business day of each month.

Fund charges

Initial charges

B & C Accumulation: 5.00%

Ongoing charges

B Accumulation: 1.27%
C Accumulation: 1.02%

Ongoing charges are based on expenses, including the annual management charge, for the year ending 31 July 2018. These figures may vary. It excludes portfolio transaction costs.

Management charge

B Accumulation = 1.00% per annum
C Accumulation = 0.75% per annum

Performance charge

There are performance fees on the C Share class only. Full details can be found in the Key Investor Information Document.

Contact details

Manager

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Authorised Corporate Director

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How to apply

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Visit www.downing.co.uk to access the Application Form

Platforms hosting the Fund

| | |
|-----------------------|-------------------|
| A J Bell | James Hay |
| Aegon | Novia Global |
| Ascentric | Novia Financial |
| Aviva | Nucleus Financial |
| Cofunds Institutional | SEI Investments |
| Cofunds Retail | Standard Life |
| Hargreaves Lansdown | Transact |

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