

# MI Downing UK Micro-Cap Growth Fund

April  
2018

## About the Fund

MI Downing UK Micro-Cap Growth Fund ("the Fund") invests 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 - F.E. One Crown<sup>1</sup> rated.
- ▶ Private equity approach to micro-cap companies, drawing on Downing's 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 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.

<sup>1</sup>Source: Trustnet/FE (for the three-year period to 31/01/2018)

## Market commentary

In the month, the fund fell 0.43%, outperforming the benchmark, which fell 1.32%. Positive contributors to performance included Pennant International Group plc (up 5.5%) and DX Group plc (up 13.1%). Detractors included Sprue Aegis plc (down 28.9%) and Gama Aviation plc (down 8.1%).

Pennant issued a positive set of results for the 2017 financial year, with modest growth in revenue and profits. The order book, now valued at more than £34 million, continues to provide good visibility. After posting these results, the company announced that the re-scoping of an existing contract had completed, increasing the contract value from £8.5 million to around £12 million. They also announced a statement of intent for £10 million from an undisclosed Middle Eastern customer. DX Group posted their first set of results since the turnaround plan was instigated by the new management team. We believe a recent widespread change in its strategy will improve operating performance over the long term in a highly competitive sector.

Sprue Aegis announced that BRK Brands had terminated a distribution agreement early, which enabled Sprue to distribute BRK products in Europe. The shares fell because this indicated that BRK believed that they were no longer liable to buyback unsold stock at the end of the agreement. We believe that there is a potential adjustment to inventory, although this impact should be reduced over time as inventories are liquidated. As such, we believe the shares have been oversold. Gama published full-year results highlighting \$14 million of free cash flow generated through the year. These results came on the back of a large fundraising in February which will drive the strategy to become the largest business aviation services provider globally. The share price softened through March despite a generally positive newsflow.

## 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	-0.43	-5.14	-4.05	-5.14	-0.55	24.31	90.96
Index	-1.32	-6.07	-1.81	-6.07	6.98	34.50	58.22

### Discrete performance - Class B Shares (%)

	31/03/2017 31/03/2018	31/03/2016 31/03/2017	31/03/2015 31/03/2016	31/03/2014 31/03/2015	31/03/2013 31/03/2014
Fund	-0.55	22.40	2.12	15.13	33.24
Index	6.98	21.41	3.56	-4.67	23.40

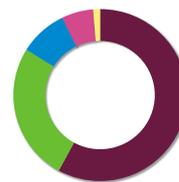
Index: Numis Smaller Companies Index Plus AIM Excluding Investment Trusts. Source of all Fund data is Maitland Institutional Services, source of all index data is Numis. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an 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\*



17.44%	Food producers & processors
14.83%	Electronic & electrical equipment
12.56%	Support services
11.86%	Software & computer services
10.50%	Cash
8.26%	Transport
5.94%	Construction & building
5.70%	Telecom services
4.51%	General retailers
2.94%	Personal care & household products
2.51%	Real estate
1.67%	Pharmaceuticals
1.28%	Oil & gas

## Portfolio by company size\*



Market cap bands	Percentage
£0m - £50m	57.91%
£50m - £100m	25.94%
£100m - £150m	8.97%
£150m - £200m	5.90%
£200m+	1.28%

## Top 5 portfolio holdings\*

	% of Fund
Real Good Food PLC	9.86**
Redhall Group PLC	5.94
Gama Aviation PLC	5.90
Pennant International Group PLC	5.80
Adept Telecom PLC	5.70

\*Source: Maitland Institutional Services

As at 29 March 2018

\*\*Holding includes a 1.16% equity and 8.71% 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 31/01/2018)

## Key facts as at 29 March 2018

### 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)  
£30.0m

### Share price

Class B 207.41p  
Class C 132.09p

### Number of company holdings

23\*

### 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.

## Contact details

### Manager

Downing LLP, St Magnus House,  
3 Lower Thames Street,  
London EC3R 6HD  
Tel: 020 7416 7780

### Authorised Corporate Director

Maitland Institutional Services Ltd  
Springfield Lodge, Colchester Road  
Chelmsford, Essex CM2 5PW  
Dealing: 034 5305 4215  
www.maitlandgroup.com

### 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: 1.25%  
C Accumulation: 1.00%

Ongoing charges are based on expenses, including the annual management charge, for the year ending 31 January 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.

## How to apply

Tel: 020 7630 3319

Visit [www.downing.co.uk](http://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

**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.

## Important notice

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