Downing Estate Planning Service

Brochure

Downing

Important notice

This brochure gives you information on the Downing Estate Planning Service (the Service). Please note, the Service will not be appropriate for every investor. Investments in the portfolio companies are high risk and it is important that you understand all the risks involved with investing. These are set out on page 5 and in the terms & conditions. Please remember that the value of your investment may go down as well as up and you may not get back the full amount you invested. Also, tax rules and regulations are subject to change.

If you are in any doubt about the content of this brochure or any action that you should take, please seek advice from a financial adviser who is authorised under the Financial Services and Markets Act 2000 (FSMA) and specialises in advising on investments of this type.

This brochure, together with the terms & conditions and the application form, constitutes a financial promotion in relation to Section 21 of the FSMA. It is issued by Downing LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HD, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom (FRN: 545025).

This brochure does not constitute an offer to provide the Service in any state, country or other jurisdiction where, or to any person or entity to whom, such an offer would be prohibited.

Nothing in this brochure constitutes investment, tax, legal or other advice by Downing LLP (Downing).

Should you decide to invest, this can only be done based on the terms in the product literature.

For each investor, Downing provides a discretionary investment management service and arranges custody of the investor's portfolio with an independent custodian. The shares will be held in the name of a nominee.

All statements of opinion or belief contained in this brochure, all views expressed, and all statements made regarding future events, represent Downing's own assessment and interpretation of information available to it as at the date of this brochure.

No representation is made, or assurances given, that such statements or views are correct, or that the objectives of the Service will be achieved. Investors must determine for themselves what reliance they should place on such statements, views or forecasts, and Downing does not accept responsibility in respect of these.

Downing has taken all reasonable care to ensure that the facts stated in this brochure are true and accurate in all material respects, and that there are no other material facts whose omission would make any statement of fact or opinion misleading.

No person has been authorised to give any information, or to make any representation, concerning the Service, other than the information contained in this brochure, the terms & conditions document, and the application form. If given or made, such information or representation must not be relied upon.

The Financial Services Compensation Scheme (FSCS) protection for deposits does not apply to investments in the Service. However, under the FSCS investment protection scheme there may be circumstances in which investors can claim compensation where Downing LLP is unable or unlikely to honour legally enforceable obligations against it (e.g. claims for fraud or misrepresentation). For more details on the FSCS and its eligibility criteria please visit www.fscs.org.uk/whatwecover.

If you have any questions, please call us on 020 7416 7780.
Please note, telephone calls may be recorded for monitoring purposes.

For UK investors only.

Information correct as at 3 July 2020.

Hello

Welcome to the Downing Estate Planning Service. We understand that when it comes to estate planning, passing on as much of your wealth as possible to your family is key.

With house prices increasing in recent years[1], more people than ever could be affected by an inheritance tax (IHT) liability.

Traditional options to mitigate IHT – such as setting up complex trusts and gifting assets – can lead to you losing control of your capital and mean you need to live for up to a further seven years to obtain full IHT relief.

The Downing Estate Planning Service is a flexible solution that allows you to obtain full IHT relief on your investment after only two years (provided the shares in the IHT companies are held at death).

IHT relief is available because the IHT companies and the companies they own carry out trades that meet the criteria for business relief qualification.

In order to help protect your assets, we've arranged Downside Protection Cover, which covers a loss in value of up to 20% on your initial investment (net of charges) at the date of death. Please see page 15 for details and conditions.

The Service offers you the opportunity to spread your subscription across loans to, and direct investments in, over 60 businesses in a variety of asset-backed and energy sectors.

This brochure is designed to give you an overview of the Service and our approach to managing your assets. We also outline the key risks and give you important information about charges.

You can find more detailed information on the Service in the terms & conditions document and, if you need anything else, please get in touch with us on 020 7416 7780.

Key features

- Minimum investment: £25,000 (no maximum).
- Target return: 4% p.a. over the medium term (although this is not guaranteed).
- Allotments: shares are allotted twice a month.
- Distributions: available on a quarterly, six-monthly or annual basis (see page 14 for details).
- Access: opportunities to exit are available twice a month (subject to liquidity and at Downing's discretion). See page 16 for details.

GROWTH FINANCE AWARDS | 2019 WINNER BEST FUND MANAGER

INVESTMENT WEEK TAX EFFICIENCY AWARDS 2018/19 WINNER Tax-Efficient Group of the Year

[1]Source: HM Land Registry, UK House Price Index, October 2019

The risks of investing

It's important that you understand the risks of investing so you can make an informed decision. The key risks associated with the Service are outlined below – please refer to the terms & conditions document for a full list.

Your capital is at risk

The value of investments, and any income derived from them, may go down as well as up and you may not get back the full amount you invested.

Tax reliefs are not guaranteed

The rates of tax, tax benefits and tax allowances described in this brochure are based on current legislation and HMRC practice. They are not guaranteed, subject to change and depend on personal circumstances. In addition, any changes to the sectors that qualify as IHT trades may have a material adverse effect on the value of the shares or the ability of the Service to achieve its objectives.

Qualifying investments are not guaranteed

There is no guarantee that sufficient investments in IHT qualifying businesses will be made within the expected timetable, or at all. In addition, IHT qualifying businesses may subsequently cease to qualify for IHT relief. In such cases, IHT relief could be delayed or lost.

Investments are long-term and high-risk

Investments must be held for at least two years and held at death to benefit from IHT relief. Although you can request a withdrawal from your portfolio (twice a month), there may be a delay because the investments made through the Service will be in unquoted companies, whose shares are less liquid than those of listed companies. Such investments are also considered to be higher risk than securities listed on the London Stock Exchange.

Target returns are not guaranteed and you cannot rely on past performance

Please remember that past performance is not a guide to future performance and there is no guarantee that the Service's target return objectives will be achieved.

Conflicts of interest

The IHT companies may co-invest alongside other funds managed or advised by Downing. With these relationships, there's a chance that the interests of one group of investors will present a conflict with the interests of another group, or with the interests of Downing. In the event of a conflict of interest, Downing's investment committee and conflicts committee (and their external advisers) will work to ensure that this is resolved fairly and in accordance with Downing's conflicts policy.

Our approach to investing

At the core of our investment strategy is an ethos of looking after your financial wellbeing.

We like to invest in businesses that own substantial tangible assets. This is because they can offer an extra level of protection compared to companies that don't have any tangible assets. So if a business fails, there will usually still be some recoverable value from the property and other fixed assets.

Similarly, energy businesses also provide attractive opportunities for investment because they have relatively predictable revenue streams.

To help manage risk, we look for businesses that have a strategy focused on capital preservation or a steady, predictable level of growth.

We take the time to get to know each management team, their business and aspirations, and work alongside them to achieve success for everyone in our investment community.

We look for businesses that have a trading strategy focused on capital preservation or a steady, predictable level of growth.

Seeking capital preservation

You've worked hard to build your estate - we're here to help you look after it. Our Service aims to provide you with modest, steady growth while preserving your capital.

The Service seeks modest, steady returns by investing in two companies that trade predominantly in two sectors. Pulford Trading Ltd invests in asset-backed businesses, while Bagnall Energy Ltd invests in energy businesses. Pulford and Bagnall also share an interest in a lending business. You can choose to invest in either of these companies or split your subscription between the two at a level of your choice.

In general, both businesses focus on trading in their respective target sectors. However, from time to time, Pulford may also take advantage of attractive opportunities to lend to energy and infrastructure projects; and Bagnall may provide capital for lending to asset-backed companies.

All trades made by both companies will undergo our robust due diligence and approval processes.

Also, we seek to back strong management teams who have proved they can do the job well. We often look for meaningful contributions from management and tie them into the performance of the business. The management teams typically don't make a profit from the investment until you do.

While we target capital preservation, this is not guaranteed. Investments made through the Service are high risk and your capital is at risk. You can find out more about the risks of investing on page 5.

Choose where you put your money - Pulford, Bagnall, or a mix of the two.

Why do we invest in asset-backed businesses?

The Service offers you the opportunity to invest in Pulford Trading Ltd and access investments in businesses that trade from freehold or long-leasehold premises.

In order to identify suitable investment opportunities, we work with strong management teams across a variety of asset-backed sectors, including hotels, care homes and property development.

Focusing on asset-backed investments helps to manage risk because in the event of a failure of a business, the value of the land and buildings should be recoverable for investors (although not necessarily in full).

We have specialised in making asset-backed investments for over 15 years and, as at 30 September 2019, manage £345 million of these types of investments in our portfolio.

Note that Pulford also has some exposure to energy assets through the lending business that it supports (see page 8).

Real investment

Magnus Care Group Ltd

As at 30 September 2019, Downing-managed funds have invested £57.5 million in Magnus Care Group, a trading business that owns and develops quality care homes.

Our care home portfolio consists of asset-backed investments, which means we have security over the bricks and mortar of the premises, plus other assets such as cash.

The portfolio includes Bothwell Castle in an affluent suburb of Glasgow and Beaumont Manor in Frinton-on-sea.

These and a number of other sites are managed by Care Concern Group, a highly experienced operator with a strong track record and with whom we have a close, long-standing working relationship.

Why do we invest in energy businesses?

The Service also provides access to investments in energy businesses through Bagnall Energy Ltd. Investing in these businesses can help manage risk because they have predictable revenue streams that can be forecast with a reasonable degree of certainty.

We invest in businesses that have existing operational assets and an established business model.

We also invest in companies with construction projects, where they typically have planning consent and proven technologies.

These types of companies use most of the capital invested to purchase equipment, which constitutes substantial tangible assets.

Managing investments in energy businesses has been a core focus for us for some time and we have invested more than £400 million in the sector since 2010.

We seek to back businesses in a variety of areas, including:

- Renewable energy, such as solar, wind, hydro and anaerobic digestion projects;
- Sectors that enable the widespread rollout of renewables like reserve power and battery storage; and
- Combined heat and power (CHP) engines, which process fuel to generate electricity and heat with lower wastage than other methods, creating fuel efficiency.

Real investment

Wensum Solar LLP

Downing-managed funds invested £8.4 million into Wensum Solar to fund the development of a 6.9MW solar photovoltaic (PV) portfolio.

The portfolio consists of 32 rooftop installations that benefit from feed-in-tariffs and one 1.9MW ground-mounted installation that receives Renewables Obligation Certificates. The assets are situated across a commercial estate in Lincolnshire and Norfolk, and range in size from 49kWh to 239kWh.

The development is capable of generating enough energy to power the equivalent of 1,900 UK homes for a whole year.

The project is being managed by specialist developer RenEnergy Ltd, with whom we have worked on more than 7MW of solar PV developments since 2014.

IHT relief

The Service offers investors the opportunity to obtain inheritance tax (IHT) relief after only two years.

At present, taxable estates worth more than £325,000 (the 'nil-rate band') are subject to 40% inheritance tax (IHT).

Between April 2017 and April 2021, the government phased in an additional allowance that applies to the family home, which is called the 'residence nil-rate band'.

This allowance started at £100,000 per person and increased over four years so that for the 2020/21 tax year, the residence nil-rate band stands at £175,000.

As at today, therefore, the total value of an estate, including the family property, that may be left to direct descendants free of IHT is £500,000 per person (£1 million for married couples or those in a civil partnership) - subject to conditions.

Any unused part of the residence nil-rate band (which applies to a single residence) is transferable between spouses and civil partners; the unused percentage from the estate on the first death can be claimed on the second death.

£325k
2020/21 IHT nil-rate band per person

£500k
2020/21 IHT nil-rate band plus residence nil-rate band

Business relief (BR)

The Service invests in unquoted businesses that undertake qualifying trades under business relief legislation. This means that the value of your shares held through the Service should effectively be disregarded for IHT purposes, as long as shares have been held for at least two years at death.

The two-year holding period begins on the date that you purchase your shares. If you have inherited shares that qualify for BR from a spouse or civil partner, then your spouse or civil partner's period of ownership can be added to yours to calculate the two-year holding period.

Under current legislation, if you sell shares from a BR-qualifying company, you can reinvest the proceeds into another BR-qualifying company and retain IHT relief - as long as (i) the sales proceeds are reinvested within three years of the sale, and (ii) both the original and replacement shares have been held for a total of at least two out of the last five years.

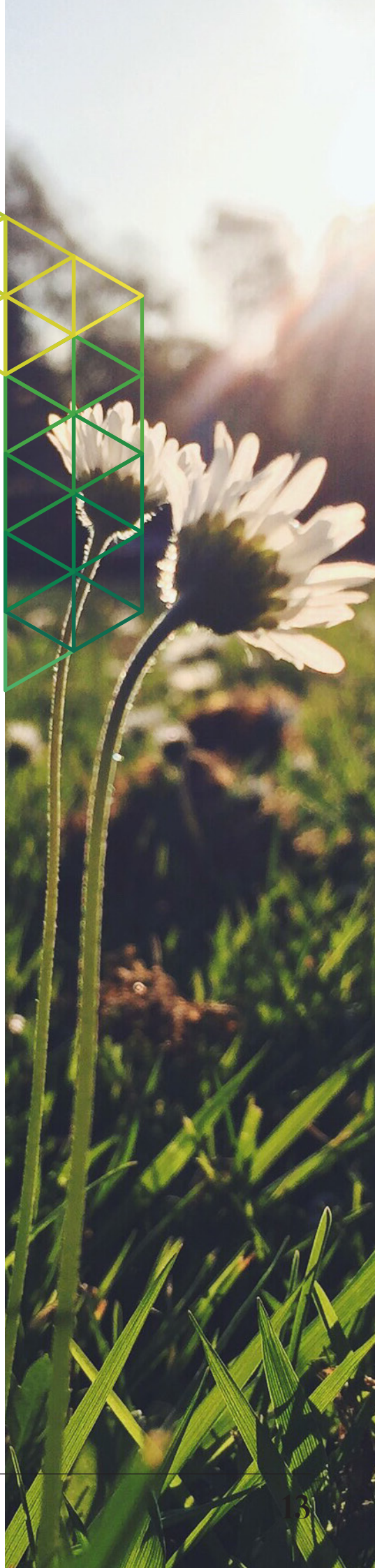
Here's an example that shows the IHT related benefits of investing in the Service.

	Investments in the Service	Listed investments
Your net investment	£100,000	£100,000
Value after five years (4% p.a. growth rate)	£121,665	£121,665
IHT at 40%	Nil	(£48,666)
Net value after IHT	£121,665	£72,999

Assumptions: both investments are assumed to grow at a compound rate of 4% p.a. (after charges and ignoring any distributions) over five years; the IHT nil-rate band is fully utilised against other assets; and all other charges, costs, taxes and tax reliefs have been ignored.

This example aims to illustrate the application of IHT relief and is not a forecast of the likely performance of the Service. The target return is not guaranteed. Please remember that investments in the Service are considered higher risk than listed investments. Please read the key risks on page 5.

The summary of IHT reliefs in this section is based on current UK tax law and is intended as a guide only. We recommend that you consult your financial adviser to discuss the possible tax consequences of investing through the Service.



We've been investing in businesses for over

30 years.

Target returns and distributions

We target capital growth of 4% p.a. on your net investment (after charges) over the medium term.

As with all investments of this type, we cannot make guarantees about what your portfolio will return. However, based on our track record and sector experience, we believe 4% p.a. capital growth over the medium term is a realistic target.

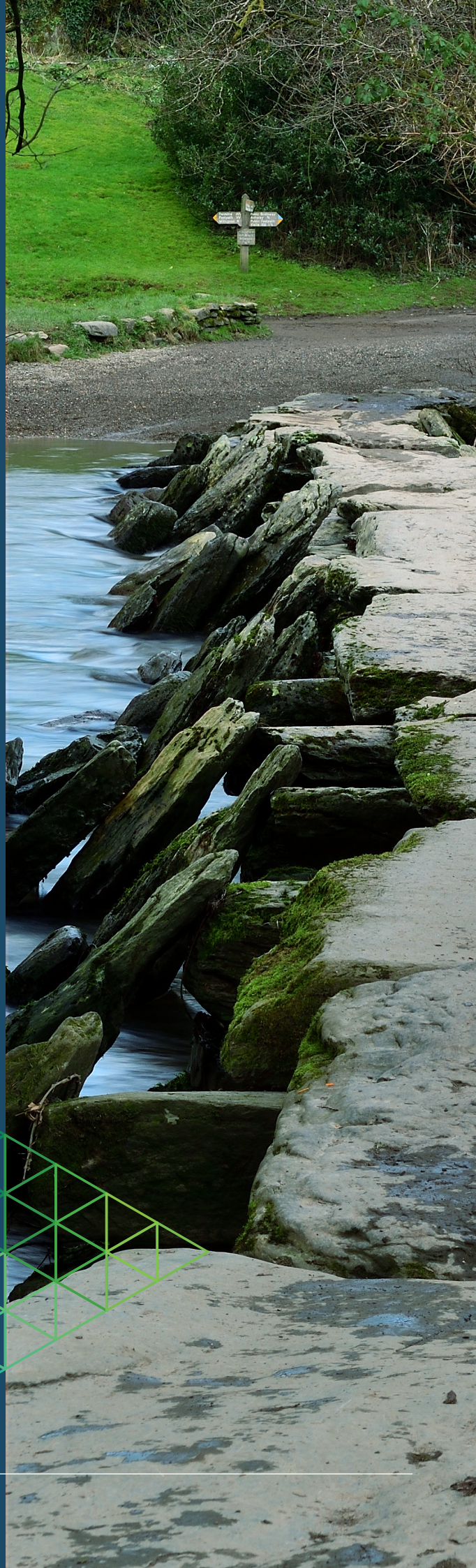
You can elect for the returns generated to remain in the Service for capital growth, or you can opt to receive regular distributions at a level of your choosing (subject to liquidity and Downing's discretion), which can be paid on a quarterly, six-monthly or annual basis.

If you elect to receive distributions, this will be paid by a sale of shares from your portfolio. Please note that if distributions are set at a level that is higher than the capital growth achieved, the value of your investment will decline. If you do sell any shares for a higher price than you initially bought them, a capital gain on those shares would crystallise, which may lead to a tax bill.

Target return:

4%

p.a. over the medium term



Downside Protection Cover

Downside Protection Cover is designed to reduce the impact of loss to you for at least the first two years of your investment. In the event of death under the age of 90, it covers a loss in value of up to 20% on your net initial investment.

We have arranged a group insurance policy with an A-rated insurer. The rating is provided by AM Best, which is a global credit rating agency with a unique focus on the insurance industry. This policy is provided at no extra cost and covers investors on death under the age of 90 years, with no medical questionnaires or exclusions for pre-existing conditions.

At a glance

Downside Protection Cover	
Term	Minimum of two years
Cover	Loss in value of up to 20% of net initial investment on death
Maximum pay-out	£100,000 (i.e coverage for a maximum investment of £500,000)
Maximum age	Under 90 years at death
Medical exclusions/conditions	None
Cost	Included in service costs (see page 20)

Joint applications are treated separately for insurance purposes. Each individual can invest up to approximately £500,000 and benefit from Downside Protection Cover.

All fees and charges are exclusive of VAT unless otherwise stated. VAT will be added where applicable.

Over
60
businesses form part of the Service

A few things to remember

- This is a group policy that is paid for by Downing and has a minimum term of two years. Thereafter, it is renewable each year, although we cannot guarantee that it will remain in place after the first two years.
- This insurance policy covers a loss in value of up to 20% of your net initial investment (i.e. after all initial charges) on death.
- The maximum benefit is £100,000 per investor (equivalent to an approximate investment of £500,000) across all our estate planning products.

Important

The proceeds of the insurance policy is payable by Downing (as trustee) to members of your family or beneficiaries as Downing selects, taking into account the persons nominated in the application form. This should ensure that any proceeds from the insurance policy fall outside of your estate and so should not be subject to IHT. For tax implications, please refer to the terms & conditions.

Opportunities to access your funds

You can access your funds twice a month, providing you give us ten days' notice. This is subject to liquidity and is at Downing's discretion. There are no charges or penalties for a partial or a full withdrawal.

If you request a withdrawal, we will sell your shares at the current share price to a third party, wherever possible.

However, if it's not possible to sell your shares to a third party, they are likely to be repurchased by the IHT companies – in which case, any profit may be subject to income tax. Bear in mind that the companies' ability to repay will depend on liquidity.

Note that if your shares are sold to a third party (whether to provide distributions or a full withdrawal) a capital gain or loss could arise.

Also, any withdrawals from your portfolio will not benefit from IHT relief, unless another IHT exemption is used.

Meet our team

Our investment team is over 50 strong.

We only make investments after going through our robust due diligence process and all investments must be approved by our investment committee. The team members below specialise in the various sectors targeted by the Service.

Chris Allner, Partner & Chair of Investment Committee

Chris has 35 years' venture capital and private equity experience, most recently as head of private equity at Octopus Investments. Prior to this, he was a director at Beringea and Bridgepoint, with previous experience at 3i and Charterhouse.

Chris has transacted over 50 investments and sat on the boards of a number of unquoted and quoted portfolio companies across a variety of commercial sectors. Current board seats include Claresys Ltd, Curo Ltd, Firefly Learning Ltd and Xupes Ltd. He is also on the board of trustees for Vital Regeneration, a Westminster based charity.

Kostas Manolis, Partner & Head of Unquoted Investments

Kostas has 15 years' private equity experience. He was previously at PwC, the private equity team at Bank of Scotland and Caird Capital, where he was part of the team that led a successful spin-out of a £0.5 billion private equity portfolio from Lloyds Banking Group in 2010.

Colin Corbally, Partner & Head of Investment Strategy

Colin qualified as a solicitor with Linklaters in 1996, then spent six years at 3i Group as a senior manager in corporate finance and venture capital. He was then a director at Royal Bank of Scotland for four years, structuring debt and equity investments, before joining Downing in 2006.

Parik Chandra, Partner & Head of Residential Development Finance

Parik is responsible for the origination of deals in the property sector. Prior to joining Downing, he was director of the real estate division at Funding Circle, with a focus on development and bridging finance. Parik has also held positions at Puma Investment Management, Asante Capital Group and Barclays.

Tom Williams, Partner & Head of Energy and Infrastructure

Tom has 20 years' experience as Principal and Adviser across the private equity and private debt infrastructure sectors. He trained as a solicitor before moving into private equity, where he has carried out transactions totalling £30 billion in the energy, utilities, transportation and defence sectors.

Mark Gross, Partner & Head of Development Capital

Mark focuses on healthcare, hospitality & leisure, and education. He has over ten years' private equity experience across a range of sectors. Mark joined Downing from UK private equity house Caird Capital. He qualified as a Chartered Banker at Bank of Scotland.

Jonathan Boss, Partner

Jonathan has over 20 years' experience of private equity and has led over 100 transactions, from management buy-outs to acquistions and company sales. Previously at 3i, he has been with Downing since 2008 and sits on our Investment Committee.

Charges and fees

There are costs involved in running the IHT companies and in building, managing and exiting their portfolio of assets. We value transparency, so here are the charges and fees that are designed to cover these costs. For further details please see page 14 of the terms & conditions.

Below is a summary of the charges for investors who invest via a financial adviser. Further details are provided in the terms & conditions, which also includes information on charges for investors where commission is payable on their investment (e.g. by those investing on an execution-only basis).

Initial and ongoing charges for managing your investment		
Initial charge	2%	Payable by the IHT companies.
Annual management charge	up to 0.5% p.a. of net assets	Chargeable on the net assets of the IHT companies. The charge will only be payable at the end of each financial period, subject to minimum investor returns. It will not apply if investor returns are less than 3% from an IHT company over the period (after all charges to the underlying businesses). If investor returns are between 3% and 4% p.a., the charge will apply on a sliding scale - up to a maximum of 0.5% p.a. If the performance is not sufficient for the charge to be paid in a particular period, either in full or in part, it will be lost and never recouped. The charge will be used to cover the running costs of the Service and any custodian and nominee fees.
Service charge	1.5% p.a. of net assets	This covers the costs of running the IHT companies - for example, the administration, accounting, secretarial and other services that Downing provides to the IHT companies, which do not employ staff of their own. The cost of Downside Protection Cover is also included in this charge.
Charges for managing the underlying businesses		
Arrangement and annual monitoring fees	less than 1% of net assets	Payable by the underlying businesses. The impact of these fees is estimated to be less than 1% p.a. of the net assets of the IHT companies (based on the year to 31 May 2019). Please see the terms & conditions for more details.

Downing may undertake additional services that are typically outsourced, but are considered to be in investors' interests. These will be charged at market rate and the fees will be included in the annual costs summary sent to investors.

Note: any costs incurred on investments that do not go ahead will be paid by Downing, not the investors or the IHT companies.

Please note

Most fees and costs are payable by the IHT companies and underlying businesses, not out of your portfolio directly. However, they will effectively reduce the returns generated by the IHT companies and, therefore, the value of the shares held in your portfolio. Any unpaid fees will be recouped from the proceeds of the sale of investments.

All fees and charges are exclusive of VAT unless otherwise stated. VAT will be added where applicable.

Initial and ongoing adviser fees can be facilitated through the Service (see the application form for more details). Alternatively, you can choose to pay such fees personally.

What to do now

Before applying, please read the terms & conditions document, paying particular attention to the risks. After that, please talk to your financial adviser to find out if the Service is appropriate for you.

When you're ready to invest

Complete the appropriate application form (single & joint and trustee forms are available) and send it to us with the required forms of identification.

If you would like any more information, please call us on **020 7416 7780** and we'll be happy to help.

Please note, we cannot provide investment or tax advice.

After you submit your application we will send you:

- An acknowledgement (within two business days) that we have received and accepted your application
- Quarterly updates on the peformance of your investments
- Annual fees and costs statements

For more information on estate planning services, please ask your financial adviser or visit our website at www.downing.co.uk/investor/products/iht.

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Downing LLP is authorised and regulated by the Financial Conduct Authority