Downing Four VCT Generalist Shares

Tax-Advantaged Investments

VCT Review

DECEMBER 2018

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Overview

Downing LLP ("Downing" or "the Manager") is seeking to raise up to £20.3 million (with an over-allotment of £20.3 million) for Downing Four VCT Generalist Shares, with subscriptions possible for the 2018/19 and 2019/20 tax years.

The Offer opened to existing and new shareholders in November 2018.

Investment Details:

Score:	85
Offer Type	Evergreen
VCT Strategy	Generalist
Share Class AUM (Pre-Offer)	£29.5 Million
Manager AUM	£1.1 Billion
VCT Risk Level	High

Investment:

Minimum subscription	£5000
Maximum qualifying subscription per tax year	£200,000
Early bird discount	Yes, see Key Features section
Loyalty Discount	None

Closing Date:

Evergreen – Closing Date for 2018/19 tax year- 5 April 2019; 2019/20 tax year- 30 June 2019

Risk Warning for VCT Schemes

Individuals should always read and bear in mind the risk warning notices that are included within providers' investment offer literature / documentation, including prospectuses, information memorandums, securities notes, brochures and other related marketing literature. Whilst the following list is not exhaustive, some of the main risks to be aware of include:

- Investments are in small, unquoted companies and should be considered as high risk;
- An investment in a VCTs should be viewed as a long-term investment and should only be considered if you can afford to tie up capital for long periods;
- Legislation, along with the nature and level of tax reliefs is subject to change. There can be no certainty that investments will be eligible or remain eligible for VCT Relief;
- Historic investment performance may not be a guide to future performance, and any given investment may fail completely causing you to lose the full amount invested;
- Managers of VCTs will have inherent conflicts of interest as a result of, *inter alia*, existence of legacy holdings, investments in other funds managed by the same manager, the potential to earn performance related fees and the existence of different schemes with identical or very similar mandates;
- VCT investments should only be undertaken by sophisticated investors who understand, and have given careful consideration to, the underlying investment strategy and associated risks. For help in determining potential investment suitability, professional advice should be sought;
- There can be no certainty that VCTs will continue to pay out their current level of income or indeed any income;
- Investors will usually not be eligible for compensation if things go wrong;
- Although VCTs are listed there is generally little or no secondary market for the shares and investors are likely to be reliant on share buybacks to get their money back; and
- In order to retain the tax benefits shares need to be held for a minimum of five years. Investors who are not able to commit to a five-year investment could consider investing through the secondary market which generally trades at a discount.

Executive Summary

MANAGER:

Downing is one of the longest established investment managers in the tax-advantaged market, with current investments across a broad range of Venture Capital Trusts ("VCTs"), Enterprise Investment Schemes ("EISs") and Business Relief qualifying Inheritance Tax investment products ("IHTs" or "BRs"). It has established itself as a notable name in the tax-advantaged market with a long track record and strong fundraising capabilities. As at 30 June 2018, Downing had total assets under management of approximately £1.1 billion, spread across both tax-advantaged and non-tax-advantaged products.

PRODUCT:

Downing Four VCT Generalist Shares (the "Fund" or "the VCT") is a growth-oriented VCT aiming to provide investors exposure to a portfolio of investments in fast-growing, VCT-qualifying businesses across a broad range of sectors. The VCT will often provide follow-on funding to investee companies previously in Downing's EIS fund as well as both leading and following in co-investment syndicates with other venture capital investment managers. The VCT has no specific return target but aims to provide a 4% dividend from summer 2020.The Fund's target holding period is the VCT minimum of 5 years, with likely exit routes from investee companies being either via trade sale or to a private equity buyer.

SUMMARY OPINION:

Downing is a strongly established Manager, especially within the tax-advantaged investment space, and has been growing both in terms of fundraising, and in team size. This growth has been underlined by the move to a new office to accommodate the increased team size, and expectations for continued growth. Investors happy to rely on a Manager with no performance track record in venture investing, and who are not reliant on regular income might consider this Fund due to its sound investment strategy, along with the Manager's extensive network within the venture capital community and well-resourced investment team. Unfortunately, as with many of these newer products, the Manager is not offering any incentive for investors to back a nascent fund in the form of discounted fees.

Positives

AT THE MANAGER LEVEL:

- Downing is one of the longest established managers in the tax-advantaged market. It was incorporated in 1986 and it started its tax-advantaged business in 1991.
- Downing is highly profitable and has consistently delivered a strong positive financial performance. It has a healthy balance sheet and a good level of recurring revenue;
- The Head of Investment, Chris Allner, has over 35 years of experience in the Venture Capital and Private Equity market and has worked in other large VC teams in the industry (Octopus, Beringea and BridgePoint);
- Investor communications are thorough, supported by a well-resourced investor relations team, with regular updates offered to investors;
- The governance structure is strong with comprehensive and detailed documentation;
- The Manager has a strong track record of raising capital for investment. Downing has raised over £1.8 billion in funds since inception, and is currently managing assets of over £1.1billion. Capital raising initiatives have

been consistent across the product range and, over the last seven years, Downing had raised at least £100 million per annum, increasing to over £200 million per annum in the last two years;

- The extent of the Downing Ventures team helps to mitigate key man risk, with multiple members of the investment team assigned to each investee company;
- Downing has been transparent with our due diligence requests.

AT THE PRODUCT LEVEL:

- Overall, the VCT benefits from Downing's sizeable investor team, meaning that the VCT is better resourced than many of its competitors, while the dedicated portfolio management personnel do everything from monitor KPIs and management accounts to assisting investee companies with hiring and organising events with established entrepreneurs.
- The recent addition of two Venture Partners is welcome, with investee companies likely to benefit from their experience and potential mentorship. The news that Downing is hoping to add additional resources, especially for those companies looking to expand overseas, over the next few years, is also welcome.
- Thanks to a combination of Downing's brand in the venture capital space, its extensive relationships with potential co-investment partners, and links with organisations who can provide both additional funding and deal flow, Downing is likely to see deals which other, less established, investment managers are unlikely to see.
- Co-investing with established venture capital firms often adds another layer of due diligence, risk management, and guidance for investee companies, although the manager is clear that all members of the syndicate must be aligned in terms of mutually agreed outcomes.
- The ability to co-invest and provide follow-on funding with other Downing-managed funds means that investors will collectively own large stakes in the portfolio companies and hence be able to exercise more influence, although it can also create potential conflicts of interest.
- The investment process is comprehensive and robust with a strong committee-based approval process, and the committee includes experienced venture capital investors who typically meet prospective management teams at an early stage in the investment process;
- We understand that the CEO, Head of Investment, Head of Ventures, and other partners also invest through the Fund alongside other investors, which provides good alignment of interest with investors.
- The dedicated portfolio team means that there are managers whose full-time jobs involves monitoring the progress of investee companies making this a priority for the investment team.
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Issues to consider

AT THE MANAGER LEVEL:

- Downing LLP is 100% owned by its 17 partners. Nicholas Lewis and his wife own a majority and controlling interest of Downing LLP, followed by Tony McGing, the CEO. Hence, the ownership structure of the business is relatively concentrated;
- A very significant part of the Manager's revenues are generated from tax-advantaged products, which means the Manager is vulnerable to changes in legislation, although this is spread evenly across VCTs, EISs and IHTs, with most of the revenue being generated from recurring income, which will protect against the short-term effects of any potential legislative change. Also, we note that the Manager has increased its non-tax-advantaged offering in recent years and aims to continue to increase this part of its business;
- Historically, the Manager's main focus was on asset-backed investments and it has needed to reconsider its product offerings as a result of the Patient Capital Review. Accordingly, notwithstanding the established nature of the Manager, many of its policies and procedures are untested when it comes to more growth-led investments. However, in one fund or another, they have been making venture-style investments for almost four years now.

AT THE PRODUCT LEVEL:

- While the strategy itself has considerable strengths, the lack of exits from the VCT, or the EIS with a similar strategy, means that the manager cannot point to performance data to support its investment thesis, nor can it demonstrate any expertise in achieving exits;
- Whilst we recognise that the market opportunity is significant, we also note, however, the increased competition for technology deals, both from other funds and peer-to-peer platforms (at the smaller end);
- The Fund will be investing primarily in early-stage technology companies, which generally have a high risk profile with a significant chance of failure, and which may need considerable time to reach sufficient size to achieve an exit;.
- The portfolio, is less mature than that of many competitor VCTs which means the chances of special dividends in the near term is likely to be lower than those competitors;
- The Manager is not expecting to pay a dividend until Summer 2020 which means investors seeking a regular income will need to wait almost two years;
- Due to the relatively small number of current investments, there is not a huge sample-size to deduce the Manager's likely ability to deploy the cash on their balance sheet, as well as the money being raised from the current offer;
- Whilst the dedicated portfolio team strengthens the risk management of the qualifying investments, this is not the case for non-qualifying investments, as can be seen in the performance of these over the previous 12 months, although the quoted team must also report to the VCT board;

- Overall fees for the VCTs are relatively high, considering the lack of any immediate dividends and a relatively new portfolio into which investors shall be buying.

Manager Quality

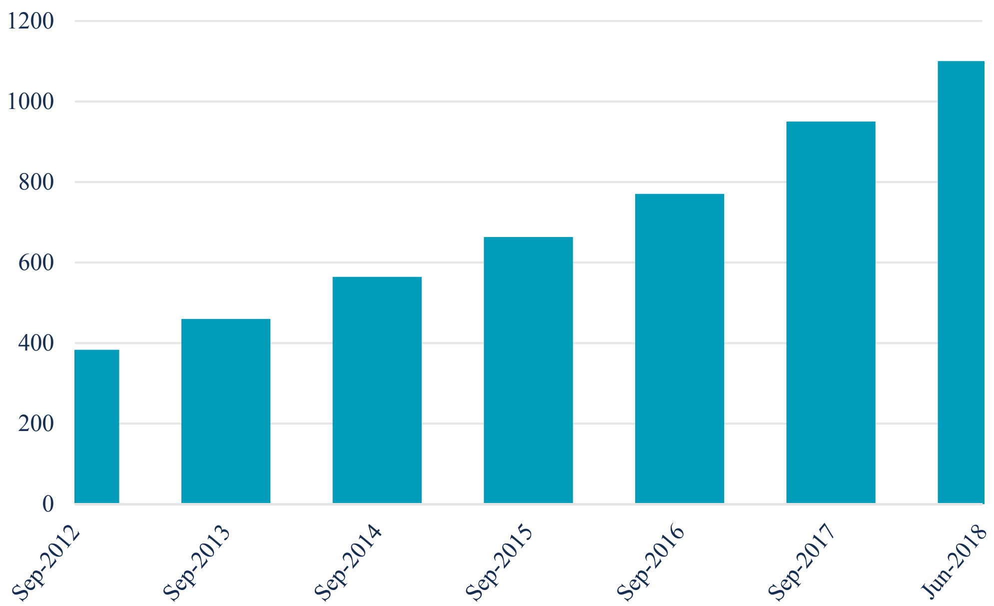
Manager Profile

Downing Corporate Finance Limited ("DCF") was originally established in 1986 by Nicholas Lewis as a corporate finance business entity and has been carrying out the management and promotion of tax-advantaged products since 1991. In June 2011, DCF transferred its business to Downing LLP ("Downing" or "the Manager"). As at November 2018, the Manager had 145 employees and four offices, and they, as of last year, relocated to new offices in the City of London to accommodate rising headcount. They retain their other offices in Cardiff, and Bristol.

The Manager invests across a range of sectors, including technology, energy generation, care homes, pubs, health clubs, and children's nurseries. At the time of writing, Downing's principal business activity is to offer management of tax-advantaged investment products, including VCTs, EISs, BR IHTs, and other investment funds or services. Downing is authorised and regulated by the FCA. As such, they are subject to FCA Rules which require them to manage conflicts of interest fairly and in the best interests of investors.

Downing's AUM continues to rise steadily (as depicted below). As of 30 November 2018, Downing had approximately £1.1 billion of assets under management, spread across a wide range of VCTs, EISs, IHTs and other tax-advantaged and non-tax-advantaged investment vehicles. The magnitude of operations and the growth in AUM provide a competitive advantage to Downing versus some of the smaller managers.

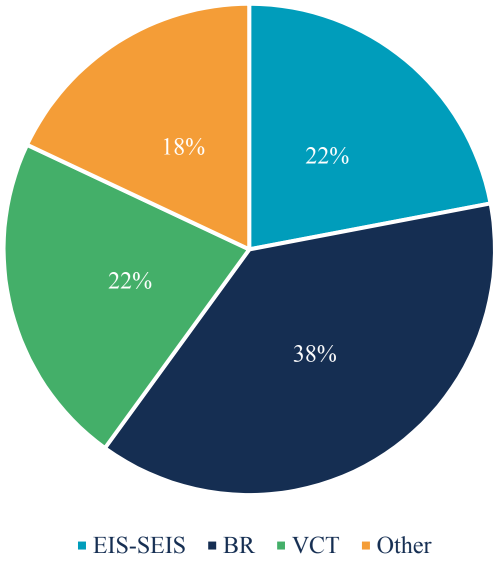
CHART 1: FIRM AUM AS AT 30 JUNE 2018 (£MILLIONS)



Source: Downing; AdvantageIQ

As shown in the chart below, the largest constituents of the Manager's AUM are IHT products (which was 37.8% of overall AUM as at 30 June 2018), followed by EIS and VCT funds (together accounted for 44.3% of the overall AUM as at 30 June 2018). We note that in March 2016 Downing Crowd was established, applying a crowdfunding model to appropriate investment opportunities through secured bonds.

CHART 2: ASSETS UNDER MANAGEMENT BREAKDOWN AS AT 30 JUNE 2018.



Source: Downing; AdvantageIQ

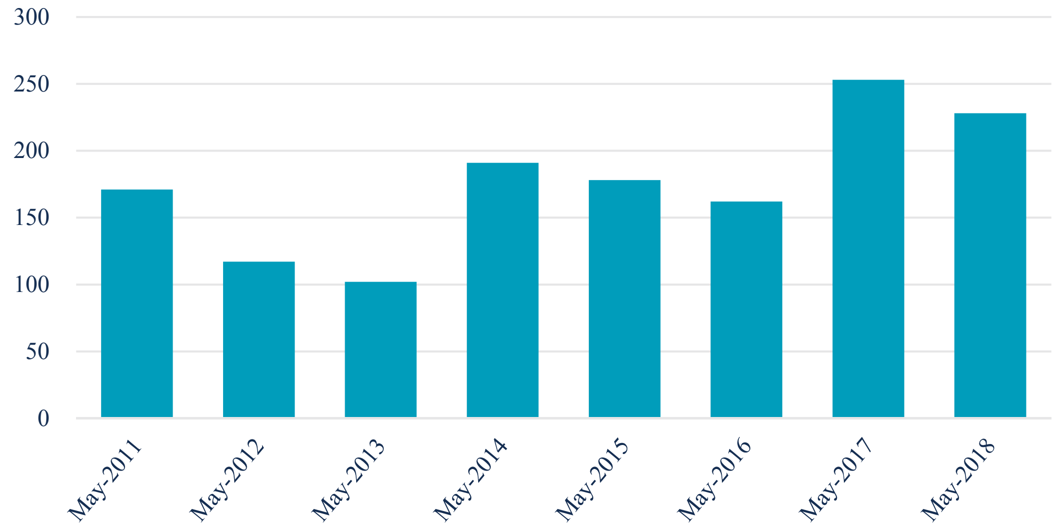
There are over 20 members in the client services team dealing with all elements of investor administration and reporting. Portfolio valuations and updates are sent out regularly (for VCTs as per listed company rules, for EIS and IHT on a quarterly basis).

As required by the FCA Rules, Downing has a formal procedure to handle written complaints. We reviewed this procedure and found it to be detailed and robust. According to the Manager's disclosure, as provided to MJ Hudson Allenbridge during our review, the Manager had a relatively low level of complaints given the size of its investor base.

With regards to fundraising performance, we note that the Manager has raised over £1.8 billion in funds since inception, typically raising funds annually on a product-by-product basis for their VCT/EIS/BR products.

As shown below, although funds raised have varied from year to year, Downing had raised at least £100 million per annum in the past seven years increasing to over £200 million per annum in the two years to May 2018.

CHART 3: FUNDRAISING TRACK RECORD AS AT MAY 2018 (£ MILLIONS)



Source: Downing; AdvantageIQ

Financial & Business Stability

Downing is a profitable and growing business that is mainly dependent on tax-advantaged products. It currently manages 19 VCT share classes, 16 EISs, 3 IHTs, 3 OEICs, 5 EZTs (Enterprise Zone Trusts), a crowd-funding platform and a recently launched Strategic Micro-Cap Investment Trust which collectively have total net assets of approximately £1.1 billion as at 30 June 2018.

Downing's balance sheet is healthy, has no external debt obligations, and has a good level of liquidity. Downing maintains capital in accordance with the FCA rules. The Manager intends to retain a minimum of £2 million of liquid resources for operating purposes.

In the table below, we present the key financial metrics of Downing LLP, as a presentation of its financial stability:

TABLE 1: KEY FINANCIAL METRICS SUMMARY

(£'000)	2014	2015	2016	2017	3 YR. CAGR
Revenues	16,099	20,013	21,982	23,862	14%
Revenue growth (%)	24.27	24.31	9.84	8.55	
Administrative Expenses, Cost of Sales and Members' Remuneration	11,683	13,926	10,699	16,393	12%
Cost to Income ratio	0.73	0.70	0.49	0.69	
Operating Profit	4,416	6,087	11,283	7,469	
Net Profit	4,592	6,285	11,382	7,573	18%
Net Profit Margin (%)	28.52	31.40	51.78	31.74	
Net Assets	3,514	4,665	6,339	4,670	
Current Ratio	2.11	1.85	2.51	1.69	
Total Debt/Equity	0	0	0.13	0.05	
Total Assets/Liabilities	2.19	1.89	2.43	1.70	

Source: Downing LLP's annual reports for the years ending 31 May, 2014-2017.

It is worth noting that as an LLP, the cost of the partners is not treated as an expense in the accounts but Downing is obviously reliant on their services to maintain operations. Payments to partners in 2016 for instance were £9.4 million bringing retained profits to under £2 million. This can also make it difficult to put in place long-term incentive schemes, such as employment shares, that are available to companies, seen as best practice under the FCA's remuneration code. However, Downing does operate a non-member deferred remuneration system within the business as well as a sizeable benefits package including private health insurance, death in service, and additional social perks. Downing is also in the process of launching a long-term incentive scheme for all employees.

Downing has a reasonably strong financial position, with a robust stream of recurring gross income (e.g. management contracts) which accounts for approximately 80% of total revenue. The rest of the revenue comprises one-off fundraising income and investment arrangement fees across the funds managed by the Manager. Downing LLP has performed strongly over the last few years and has remained profitable in every year since inception.

As mentioned earlier, DCF transferred its business to Downing LLP on 1 June 2011. Since then, there have been no corporate changes. We understand that the Manager foresees no change in corporate ownership and envisages that it will continue to operate using the same structure.

Quality of Governance and Management Team

Downing LLP is 100% owned by its 18 Partners. Nicholas Lewis, the founder, and his family, hold a majority and controlling interest, followed by Tony McGing, the CEO, and the remainder is spread across the other partners. The ultimate decision-making entity is the Manager's Board of Partners (the "Board"), comprised of six members, out of the eighteen total partners at Downing. The Board is chaired by Nicholas Lewis and is well resourced and balanced. The Board meets regularly to discuss and review the firm's accounts and practices to ensure compliance with FCA requirements.

The Manager also has an Investment/Valuation Committee and a Senior Partner Advisory Committee, which have various business functions and are an integral part of the decision-making process. The oversight committees are detailed below.

TABLE 2: OVERSIGHT COMMITTEES

COMMITTEE	DETAILS
Investment Committee	**Mandate:** Review and approve the investment proposals **Members:** Founder, CEO, Head of Investment, Head of Unquoted, Head of Investment Strategy and relevant investment professionals **Frequency:** As required, typically once a week.
Valuation Committee	**Mandate:** Review and approve valuation of each Fund **Members:** Founder, Head of Investment, Head of Portfolio Management, Head of Investment Strategy and a Partner with responsibility for the relevant fund. **Frequency:** Quarterly
Senior Partners Advisory Committee	**Mandate:** Manage, oversee and implement the strategic activities, subject to matters reserved by the Board **Members:** Managing Partner, CEO, CFO, Head of Fund admin, Head of Investments, Head of Investment Strategy, Head of Unquoted, Head of Compliance and two non-executive external advisors **Frequency:** Quarterly
Board	**Mandate:** The ultimate decision-making entity that has responsibility for the strategy **Members:** Chairman, CEO, CFO, Head of Investment, Head of Unquoted, Head of Investment Strategy, Head of Fund Administration and Head of Compliance **Frequency:** Quarterly, and as required
Head of Departments Committee	**Mandate:** To oversee and lead the operational and day-to-day activities of the firm **Members:** CEO, CFO, CTO, Head of Fund Administration, Head of Compliance, Head of Investment, Head of Investment Strategy, Head of Unquoted, Head of Asset-Backed Investment, Head of Sales and Head of Marketing. **Frequency:** 6-7 times a year

Source: Downing; AdvantageIQ

Downing's team expanded significantly over the past several years and had a headcount of c. 145 as at November 2018, including more than 40 new hires in the last 12 months. We consider the senior management team to be extremely competent and relatively stable. Its Head of Investment has over 35 years of experience in the tax-advantaged product market and has worked in other large VC teams in the industry, such as Octopus, BridgePoint and Beringea. Downing also hired a full-time CTO in June 2017 and replaced its manual portfolio management system with a solid IT system, Preqin (formerly Baxon), which helps the Manager to monitor and value investee companies.

The CFO, Chris Lewis, a qualified chartered accountant who has worked in audit and advisory at KPMG and Ernst & Young, leads the human resources team, which includes a HR Director, Senior HR Manager, and HR Executive. The firm seems well staffed. Of the firm's total employees, 18 are Partners and over 40 are in the investment team. Downing expects an average increase of 15%-30% in employee numbers over the next three years, depending on the increase in AUM. The Manager indicated that there are no material corporate changes expected, at the time of writing. Downing also has a detailed Code of Ethics, which includes policies on confidentiality and standards of business conduct by which employees must abide.

Overall, Downing's structure and approach to governance appears strong. One element of the structure is that Mr Lewis' family are involved in the ownership and management of the company. Mrs. Lewis, Nicholas Lewis' wife, holds the second largest beneficial ownership after Nicholas Lewis. Our understanding is that Mrs Lewis does not play an active role in the day-to-day management of the firm. Chris Lewis, a member of Nicholas Lewis' extended family, is the CFO, as mentioned above. Although we believe that the Manager is well run and that its CEO Tony McGing is responsible for the day-to-day management of the company, and that there is a sufficiently broad set of individuals at senior levels with the Manager, this ownership issue is nonetheless something to consider as it could affect the ultimate governance of the Manager in cases of conflict.

Product Quality Assessment

Investment Team

There are eight individuals directly and primarily involved with the assessment of opportunities and management of the portfolio (“the Team”). They are closely supported by Alex Cochand, the Deal Origination Manager, and William Brooks, whose primary work is with Downing Four VCT Healthcare. Further to this, the Team has access to the resources and expertise of the wider investment team of over 40 investment professionals. Senior members of the wider investment team are divided according to broad sector specialisms, whereas junior members provide support across all sectors. Dr Kostas Manolis, partner and head of unquoted investments, leads the Team. He joined in 2015 and has more than 14 years of experience in private equity investments, both as an investor and as an advisor. Chris Allner, partner and head of investments, leads the wider investment team and has over 35 years of venture capital and private equity experience.

Although the Team, along with the ventures strategy, is still new to the Manager, the senior members of the Team have a broad breath of investment experience within the ventures space. Furthermore, access to the wider resource of 40 investment professionals provides a wealth of knowledge, including venture expertise amongst others. Consequently, we consider there to be sufficient expertise in the Team to execute the strategy. Additionally, the Team has a strong network of contacts that they can leverage in the execution and management of the strategy. We note that over the last two-and-a-half years, the Team has grown from three investment professionals, with significant key man risk, to a broader Team with significant venture and growth investment experience.

The VCT has recently added two Venture Partners, who are remunerated by Downing, to give investee companies access to expert advice. Downing aims to increase the number of Venture Partners to six over time, with the objective of particularly increasing the expertise invaluable of investee companies who might be hoping to expand overseas.

This evidences the Manager’s commitments to enhancing its venture and growth strategies. We note that there have been a number of key hires to bolster the Team’s expertise in the execution of venture and growth strategies, including Richard Lewis, James Lewis, and Mike Kennedy. Richard has been a venture capitalist for over 15 years; James is ACA certified and used to run the finance and operations division of an early-stage company; and Mike Kennedy has spent over a decade in the venture capital industry co-founding and investing in start-up businesses. It is important to highlight that the previous head of the Team (Matt Penneycard) resigned, despite this, there does not appear to be a shortage of expertise in the Team.

In our view, there appears to be a low level of key man risk given the size of the team and the involvement of a wide range of team members in each investment decision. Overall, the Team is very well resourced and has the relevant mix of experience to effectively execute on deals to the stated mandate.
We present the biographies of key members of the investment team in the appendix to this report.

Investment Strategy & Philosophy

The Downing Four VCT Generalist fund was formed through the merger of the Manager’s previous planned exit VCT funds (i.e. VCTs with a planned lifespan) with the new VCT aiming to invest, and co-invest where possible, in shares of technology-enabled, fast-growing, UK businesses through new evergreen Share classes. Downing has three other VCTs, with the Generalist and Healthcare share classes of Downing Four VCT having a more growth-oriented investment philosophy than those other products. The Board’s policy is to deliver a steady flow of tax-free dividends when possible, generated from income or capital profits realised on the sale of investments, although the level of dividends is not guaranteed. The VCT intends to adopt a dividend policy, of distributing at least 4% of its net assets each year as dividends from summer 2020. In accordance with the VCT rules, such distributions will not be made out of capital or cancelled share premium which is less than three years old.

The Downing Ventures team utilises a common pipeline, often co-investing with or providing additional, follow-on growth funding for portfolio companies which received initial investment through Downing Ventures EIS. The EIS focuses on companies at earlier stages of growth and provides capital from "seed" to "series A" funding and beyond, with the VCT tending to come in at a later stage of development than the EIS. In terms of allocating opportunities between the funds it has been agreed that allocations will be offered to each party in proportion to their respective funds available for investment, subject to maintaining the funds' tax status, the time horizon of the investment and the risk/reward profile of any investment. Any remaining conflicts are resolved using the discretion of the independent directors and designated members of the relevant funds under question.

Investing alongside the EIS, or indeed the Manager's other VCTs, means that the Manager will have control of a larger stake of each portfolio company and hence could have a greater level of influence with each investment. It also means that the Manager may have been involved with some of the investee companies for a greater period of time than many other Generalist VCT managers, potentially giving the Manager a greater understanding of its investments. However, if not managed correctly this could lead to issues over investment governance and potential conflicts of interests between EIS and VCT investors.

The VCT typically targets a deal size of between £1 million and £3 million, with a minimum investment of £250,000, with a planned holding period of the minimum VCT-qualifying period of five years. A typical investment opportunity will likely have the following characteristics:

1. Strong and experienced management team
2. A defensible business model
3. a degree of product market fit (usually proven by sales to multiple customers)
4. high growth potential and identifiable route to eventual exit for shareholders

Post-investment the Manager aims to add value over the course of the holding period in a number of ways: by taking a board seat (or observer and reserved rights if "following" in a syndicate being led by a co-investor partner) in order to help shape company strategy and to monitor progress, by using its network to suggest company Chairmen or other contacts, and by giving companies access to Downing's Venture Partners, experienced entrepreneurs and business professionals who can lend their experience to assist a management team. The dedicated portfolio monitoring team has developed additional initiatives, from job boards and assistance in hiring to aid investee companies, to talks from entrepreneurs who have successfully scaled established businesses (most recently the Founding team at Stripe, a breakout payments company in Silicon Valley), and portfolio days where investee companies can meet each other and potentially find areas of mutual interest for collaboration. We were impressed with the range of ways Downing aims to assist its investee companies, with plans to expand many of these initiatives further over the next few years, including adding to the roster of current Venture Partners, whose bios can be found in the Appendix.

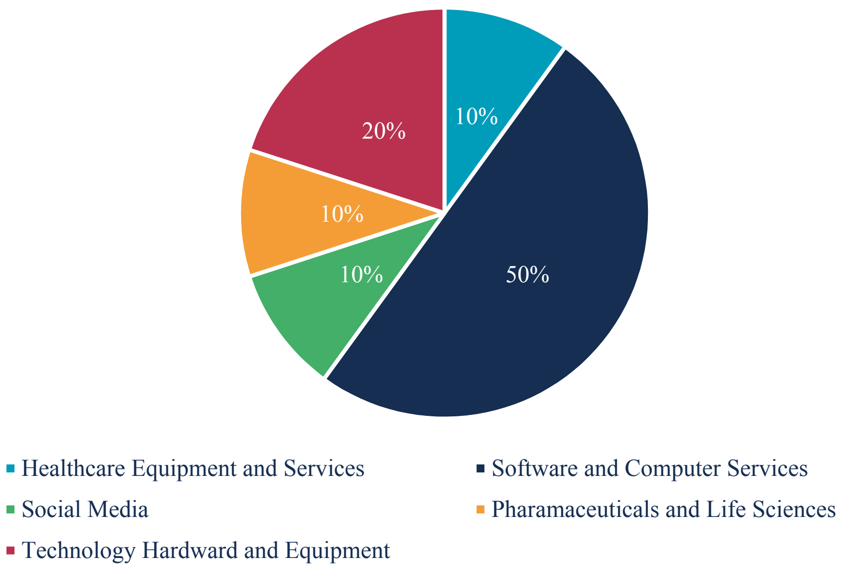
The Manager emphasises the Investment Team's role in the wider U.K. Venture Capital scene, which it considers a key differentiator compared to other funds in the tax-advantaged space. Downing has partnerships with the London Co-Investment Fund (the Mayor of London's £25 million co-investment fund), BioScience Managers (a specialist life sciences group), Scottish Enterprise (who provide matched funding for businesses based in Scotland), and the Telecom Infrastructure Project (TIP), a jointly conceived Accelerator from Facebook and BT. Equally Downing regularly co-invests with other Venture Capital funds (both tax-advantaged and institutional) who are prominent in the UK venture capital space and beyond. This serves as both an additional source of deal flow, an additional layer of due diligence and risk management, and allows the Manager to access some larger deals than might be possible if investing on its own. While co-investing is not necessarily always to be preferred to Managers who source their own deals and lead their own round of investment, the calibre of Downing's co-investment partners underlines the strength of its brand in the venture community and allows the Manager to access opportunities which less well-known teams might struggle to access.

The Portfolio support team works with entrepreneurs to help prepare them for exit. Exit routes include trade sales, acquisition by a company who the investee company supplies for better vertical integration, private equity acquirers, or IPO (which is considered a less desirable option for most investments).
We consider the Manager's investment strategy as a strength of the offering. Downing's strong brand presence in the venture sector, its established network with potential co-investors, and partnerships with other hubs of opportunities, should help provide Downing's investment team with deal flow not available to many other VCT investment teams. While the Venture Team, because of its youth has no successful exits to date, the inherent strengths of Downing's brand and extent of its network should make for a compelling pitch to investors and investee companies alike in terms of what it should be able to deliver over the next few years.

Pipeline/Prospects and Current Portfolio

Since inception, Downing Four Generalist VCT has invested approximately £29.5 million across 21 investments, of which 16 were in the last 12 months, totalling £8 million. At 31st October 2018 the portfolio comprised 21 companies, which the Manager spread through the categories of Healthcare Equipment and Services, Pharmaceuticals and Life Sciences, Software and Computer Services, Technology Hardware and Equipment, and Social Media.

CHART 4: PORTFOLIO COMPOSITION BY SECTOR AS AT 31 OCTOBER, 2018



Source: Downing; AdvantageIQ

We have performed a high-level review of all the underlying investments that make up the current VCT portfolio and we highlight the following (as at the end of October 2018):

- Of the 21 current investments, 16 were made in the last 12 months.
- The average deal size of the Fund is approximately £1 million, with deal size varying between £0.25 million and £3 million.
- Overall, we consider the portfolio to be aligned to the strategy targeted by the Manager. Additionally, we note that the small markdowns observable in the portfolio is reflective of the high-risk nature of the strategy.
- The below table presents the top ten holdings in the portfolio for information purposes as at 31 October 2018.

TABLE 4: TOP 10 HOLDINGS AS AT 31 OCTOBER 2018

INVESTEE COMPANY	SECTOR	COST (£ MILLION)	VALUATION (£ MILLION)
MI Downing Monthly Income Fund	Non-Qualifying Investment	4.1	3.7
MI Downing UK Micro-Cap Growth Fund	Non-Qualifying Investment	4	3.7
Downing Strategic Micro-Cap Investment Trust plc	Non-Qualifying Investment	4	3.4
MI Downing Diversified Global Managers Fund A Accumulation	Non-Qualifying Investment	1.8	1.8
Live Better With Limited	Healthcare	1.3	1.3
Lignia Wood Company Limited	Consumer Goods	1.1	1.1
Maverick Pubs (Holdings) Limited	Consumer Services	1	1
E-Fundamentals (Group) Limited	Software and Computer Services	0.9	0.9
BridgeU Corporation	Technology	0.8	0.8
Hackajob Limited	Software and Computer Services	0.8	0.8
Others		11	11.0
Total Top 10		19.8	18.5
Total Holdings		30.8	29.5
Top 10 as % of Total		64%	63%

Source: Downing; AdvantageIQ

Investors should note that MJ Hudson Allenbridge has not analysed the commercial viability or risks relating to the underlying investments.

With regard to the pipeline, as at the time of our review, the manager was in advanced stages of negotiation with seventeen deals with a potential investment total of £9.9 million. Eleven of these relate to follow-on funding into existing portfolio companies totalling £4.2 million, whilst six are new investments totalling £5.7 million. Additionally, the Manager has a further 50 businesses at the early stage being tracked. However, there are no planned realisations within the next 12 months.

Most of the Fund's deals originate within their network. Alex Cochand is the dedicated Deal Origination Manager, and he sources new investment opportunities. Overall, the Fund reviews approximately 100 pitch decks a month, though few progress to the Investment Committee. In addition to this, we note that the Fund sources many of its investments from the Manager's EIS fund which gives the Manager a greater familiarity with some of its investments. In the 6 months to 30 September 2018, 24% of capital was deployed on follow-on investments, whilst 41% was deployed on new investments.

As outlined above, non-qualifying investments are made into funds managed by Downing's Public Equity team. As of 30 September 2018, non-qualifying investments made up 48% of the value of the fund, with another 19% being in non-qualifying cash. As outlined in the Performance section, these non-qualifying investments have had a poor year. Overall, the Fund's pipeline is well developed, with both the EIS fund and the Deal Origination Manager finding new potential investments for the VCT. The Manager has a strong track record with sourcing investments, even if the non-qualifying investments have disappointed.

Investment Process

The Manager has described its investment process as follows in AdvantageIQ:

TABLE 5: INVESTMENT PROCESS

INVESTMENT PROCESS	DETAILS
Deal sourcing/ origination	The Downing Ventures team analyse approximately 100 investment opportunities each month. Downing has a dedicated deal origination manager and several well-established sources of potential investments, including the following: London Co-Investment Fund: Downing Ventures is one of the selected VC co-investment partners of the Mayor of London's £25 million London Co-Investment Fund. Accelerators/incubators Downing Ventures has strong relationships with many accelerators and incubators such as Techstars, Wayra, PwC SCALE and others. Telecom Infrastructure Project: In February 2017, it was announced at the Mobile World Congress in Barcelona that Downing Ventures would be involved in the launch of a new initiative, which collaborated with companies such as Facebook and BT, to invest in and develop technologies for communications infrastructure. Leading investors, incubators and public/private funds will collectively invest $170 million in start-ups focused on telecom infrastructure. Other VCs & Family Offices: Venture investing tends to be a collaborative area of the capital markets and, therefore, we have excellent relationships with other venture capital firms, family offices and angels. We would rather invest in partnership with other smart investors, than alone in a vacuum. Networks: Downing Ventures, or individuals in the team, are members of carefully selected networks that can produce interesting investment opportunities. Examples of such networks include angel investment networks, geographic specific groups, academic groups and crowdfunding platforms.

Deal filtering and selection	Individual investment managers consider whether to put forward opportunities to the team. Many deals are turned down before this process starts and during this process. There is a weekly meeting with all the investment managers and selected Investment Committee members. Members of the Investment Committee will typically meet a new company before terms are presented.
Due diligence process	Due diligence is undertaken on businesses and new management teams in line with general accepted practices in the venture capital industry e.g. references, valuations, review of financials etc. and external expert advisors are used where appropriate.
Deal approval	No investment is completed without an investment paper and formal approval by the Investment Committee. There is a consensus process; however, ultimately the decision is with the Investment Committee. A paper is presented and discussed at weekly team meetings when an opportunity first arises. A fuller more detailed paper is then considered by the Investment Committee.

Source: Downing; AdvantageIQ

As well as the final IC report, the VCT Board sees the 30-page review prepared on each investee company and are welcome to make their comments known, if they have any objections.

We have reviewed the investment process for the Fund and were impressed with the structure and rigour of the procedures followed. Overall, Downing adopts a sufficiently comprehensive investment process with a diverse deal sourcing channel that reflects their level of expertise in the market, ranging from formal/informal relationships with a number of third parties (such as the Telecom Infrastructure Project and London Co-investment Fund) to a worldwide network of connections through Downing's large investment team of over 40 people. Their due diligence process operates as a robust filtering system undertaken before the selection of underlying investments. Additionally, the deal approval process provides a sufficient level of governance.

Given the similarities in the strategy adopted by Downing Ventures EIS and VCT funds, there are a number of conflicts of interest, which require consideration in the investment process. We understand that all conflicts that arise in any potential transaction are presented in the investment papers discussed by the investment committee and Downing maintains an up to date conflicts of interest policy. Additionally, Downing has a conflicts of interest committee who meet quarterly to help mitigate any conflicts which could arise.

Risk Management

We identify the following as the key risks of an investment in the Fund: failure/poor performance of an investee company, execution risk, liquidity risk, exit risk, dilution risks to follow-on investments and maintenance of VCT tax benefits. We have assessed the policies and controls that Management has in place to minimise these risks and have found them to be appropriate for the size and strategy of the Fund.

Risks relating to investee company defaults are partly mitigated during the investment process through the analysis and due diligence undertaken before an investment decision are made. Additionally, the Fund provides investors with some diversification benefits through exposure to investments; the aim is to provide a good spread in the risk profile of the underlying companies with an even mix between new and follow-on investments. We note that follow on investments are subject to the investee companies meeting certain milestones and continuing to demonstrate significant growth potential.

At the time of the review, the firm's official risk management policy was still being finalised and so was unavailable for viewing. However certain policies are known. Fund policies ensure diversification of risk with the fund investing in a variety of different sectors, totalling 21 investments. Downing ensures that for each share pool, no company will exceed 15% by value of the total investments at the time of investment. The Fund has a share buyback discount of 0%. This is much lower than the typical market discounts of 5-10%, which is to the investor's benefit. Whilst the making and timing of buybacks are at the discretion of the Downing Board, this provides more liquidity for investors than for comparable VCT funds.

The Manager typically scales into investments to control the level of idiosyncratic risk. Relatively small investments are expected to be made in a first round of financing. Once Downing is more comfortable with an investment, having been monitoring it for some time, they would look to lead the second round of financing, scaling up the total investment. Should there be a third round, Downing expects to participate (but, typically, not lead) the round of financing. Total investments in any one company are unlikely to exceed £2m.

As mentioned in the strategy section above, certain funds will be employed in Non-Qualifying Investments, as such these will fall under the risk management policies of those funds and companies

We consider Downing's portfolio monitoring policy to be fit for purpose. To capture financial information in a timely and accurate manner Downing uses a third-party monitoring system, which collects management information directly from investee companies. The system will flag potential issues with investee companies' key financial metrics. On top of this, the quality of the portfolio is managed by the portfolio director and portfolio analyst from the Downing team. Any lack of performance within investee company management can be rectified as the Manager has full control of all appointments. This has been demonstrated in the past with investee companies, for example, receiving a new finance director, or a new CTO. Beyond this, Downing does not have leaver provision for members of the management team from other syndicates.

Some portfolio companies are monitored through board representation or observer positions, and continuous dialogue with investee companies' management teams. However when Downing are part of a larger co-investment syndicate they often allow their larger partners to take the board seats.

We understand that there are no formal sector or subsector limits or constraints. Given the strategy, investor portfolios are expected to be highly concentrated in technology. However, in order to ensure that the Fund mitigates concentration risk, the Manager's aims for diversification through focusing on the business models of the investee companies and making sure that these are diverse across the portfolio. At the highest level, this would involve diversification within software companies from those focused on enterprise solutions to those on consumer products. There is also expected to be a small proportion of non-software-based companies included in portfolios, for example hardware and life sciences businesses.

We note that Philip Hare & Associates are the tax advisors of the fund. They ensure that every investment is compliant with all VCT requirements, and that all wider VCT compliance requirements are followed by the Fund. This is in addition to an in-house legal team providing legal support, structuring, and executing the majority of the transactions. Peter Naylor (Partner and Legal Counsel) is involved in all transactions.

Finally, we present the following as potential conflicts of interest that the investors should be aware of:

- The co-investment of capital with different Downing-advised products with similar strategies. The Manager's allocation policy is that allocations are offered to each party in proportion of their respective funds available to invest subject to: the priority of any fund needing to maintain their tax status; time horizon of the investment being in line with the exit strategy of the fund; and the risk/reward profile being compatible with the aim of that fund. In the event of conflicts between parties, the issues are resolved at the discretion of the respective directors;
- Follow-on funding: we understand that the EIS fund may invest in companies already held by Downing FOUR VCT, although the Manager states that it is unlikely in this case;

Investors should note the conflicts of interest (typical of an evergreen VCT) between existing investors and new investors with respect to the valuation of the existing portfolio. Such conflicts need to be managed carefully. We have reviewed the Manager's conflicts of interest policy and are satisfied with it. We understand that valuations are done, wherever possible, with a third-party valuation expert who validates that the entry price is fair (this should mitigate potential conflicts of interest for investments that have previously been in one of Downing's EIS products). We consider it to be a good practice as it helps mitigating conflicting interests of new and existing shareholders.

Key Features

The following fees (number 1-3) describe the fees directly payable by the investors and the product fees (number 4) incurred by Downing.

1. INITIAL AND ONGOING FUND MANAGEMENT FEE

TABLE 6: FEES TO THE MANAGER

INITIAL FEES (ADVISED)	ON-GOING ANNUAL MANAGEMENT FEES	ADMINISTRATION AND ACCOUNTING FEES
3% of the amount subscribed payable by the VCT	2% of the amount subscribed plus VAT per annum payable by the VCT	N/A, included in the On-Going Annual Management Fees

Source: Downing; AdvantageIQ

The Annual Running Costs of the share pool are capped at 3.0% (including irrecoverable VAT) of Net Assets. Any excess will be paid by Downing, or refunded by way of a reduction in its fees. Annual Running Costs include, inter alia, Directors' fees, fees for audit and taxation advice, registrar's fees, costs of communicating with Shareholders and investment management fees.

2. EARLY BIRD AND OTHER DISCOUNTS

TABLE 8: EARLY-BIRD DISCOUNTS (APPLIES AS A REDUCTION IN THE INITIAL APPLICATION FEE SHOWN IN 3 BELOW)

DISCOUNT	DETAILS	CLOSING DATE	APPLICABLE CANDIDATES	CONDITIONS
Early-Bird Discount	1.00%	28 December 2018*	For everyone who applies	Applications received and accepted by 28 December will receive the full discount. Applications received and accepted after this day will receive a lower discount.

Source: Downing; AdvantageIQ

*Every week after, the discount will be reduced by 0.1% for new applications until the discount ends on 2 March 2019.

3. SUBSCRIPTION/APPLICATION FEES

TABLE 8: SUBSCRIPTION/APPLICATION FEES

TYPE OF INVESTOR	INITIAL APPLICATION FEE (AND INITIAL COMMISSIONS/INITIAL ADVISER CHARGES)	ONGOING MANAGEMENT CHARGES (AND ONGOING COMMISSIONS / ONGOING ADVISER CHARGES)
Direct Application (investors who make an application, without using a financial advisor or 'execution-only intermediary)'	3% of the amount subscribed	2% of the amount subscribed plus VAT
Application through an adviser (investors who make an application through a registered financial adviser with an ongoing fee)	3% of the amount subscribed plus Adviser Charges	2% of the amount subscribed plus VAT and Ongoing Adviser Fees**
Application through an adviser (investors who make an application through a registered financial adviser without an ongoing fee)	3% of the amount subscribed plus Adviser Charges	2% of the amount subscribed plus VAT
Application through an execution-only intermediary)	5% of the amount subscribed (2% of which will be paid to the intermediary)	2% of the amount subscribed plus VAT

Source: Downing; AdvantageIQ

* If investors are investing through an execution-only intermediary, 2% out of the 5% of the amount subscription will be deducted from the exit proceeds realised from four years' time onwards.

** For Ongoing Adviser Fees, four years' of charges will be deducted from the investors' initial subscription and set aside in a separate client cash account with ongoing adviser charges charged annually and paid from this account. The client cash account will be managed by the Custodian (Thompson Taraz Depository Limited) with trust status.

Downing have announced an early bird offer that will reduce in tranches of 0.1% every week (e.g. 0.9% reduction in costs from 29 December 2018 to 4 January 2019) until 2 March 2019, after which the offer will end.

3. PERFORMANCE FEE

The performance fee will be 20% of dividends paid when total returns are above the Hurdle. For the Hurdle to be met, the Generalist Shares must have a Total Return (based on audited year end results) in excess of £1 for the year ended 31 March 2020. For subsequent years, the Total Return hurdle increases by 3p per annum such that for the year ended 31 March 2021 the Total Return hurdle will be £1.03, for the year ended 31 March 2022 the hurdle will be £1.06, for the year ended 31 March 2023 the hurdle will be £1.09 etc.

These performance fees, with no performance hurdle in the initial years and thereafter at a rate below the target dividend, are reasonably high relative to market peers. Also payment of performance fees based on valuations of unlisted securities creates significant conflict of interest and scope for such fees to be earned on gains that are never realised.

4. PRODUCT FEES

The detailed fees are listed in the following table.

TABLE 9: FEE DETAILS

FEES	DETAILS
Administration Charge	0.0%
Annual Management Charge	2.0%
Arrangement fees	Up to 3.0%
Monitoring fees	Capped at the higher of £10,000 p.a. or 0.5% p.a. of cost of investment
Directors' Fees	0.1%
Administration Fees	Formula-based fee comprising three elements: (i) basic fee of £40,000; (ii) fee of 0.1% per annum on funds >£10m; (iii) £5,000 per additional share pool. Expected to be less than 0.25% of NAV if Offer fully subscribed
Other	0.0%

Source: Downing; AdvantageIQ

The cost of all deals that do not proceed to completion will be borne by Downing. Downing does not charge any other fees such as service fees.

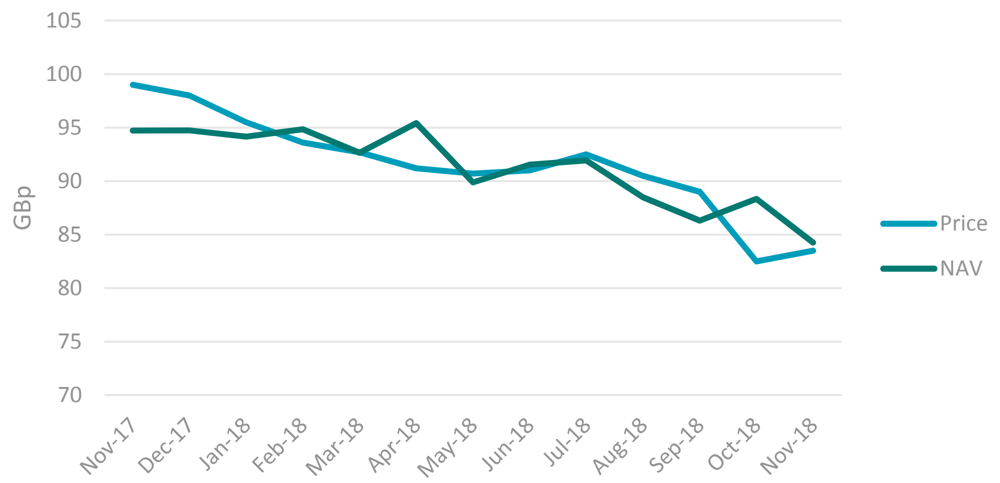
Performance

We note that the Fund does not yet have a meaningful performance track record; the Fund launched in the 2016/17 tax year, whilst the expected holding period for portfolio companies is between four to eight years. Additionally, we note that the Manager does not have any comparable products that can be assessed with regards to relevant performance track record. Notwithstanding this, we note that the existing portfolio is currently valued above its investment cost and consequently provides some indication of performance progress. The poor performance of the non-qualifying investments over the last 12 months must also be highlighted, even though it does not represent a long-term track record.

We note that the Fund has suffered substantial losses in its non-qualifying investments. The Team has responded by stating that this was due to "poor market conditions which adversely impacted the prices of the quoted investments." They emphasised that the market has not performed to their expectations over the last year, and stressed that these are long term holdings. Longer-term performance of the funds used in the non-qualifying section of the portfolio has been much stronger and the Manager expects the performance of these funds to significantly improve in the future.

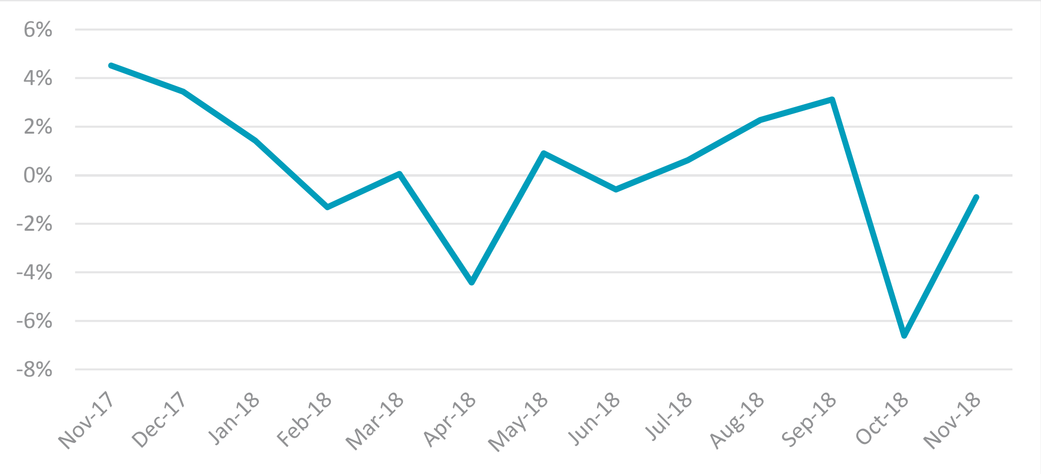
Of the non-qualifying investments, £4.1 million was invested in Downing Strategic Micro-Cap Investment Trust plc. This investment performed well below the sector average. Both price and NAV saw significant decreases over the year to 1 November 2018, as shown in charts 6 and 7:

CHART 6: DOWNING STRATEGIC MICRO-CAP INVESTMENT TRUST PLC



Source: Hargreaves Lansdown

CHART 7: PREMIUM/DISCOUNT TO NAV



Source: Hargreaves Lansdown

Of the remaining £9.8 million, £8 million was split between MI Downing UK Micro-Cap Growth Fund and MI Downing Monthly Income Fund, and £1.8 million was invested in MI Downing Diversified Global Managers Fund. The former two also performed far below the sector averages. MI Downing Diversified Global Managers Fund performed only slightly below the sector average, whilst this was the best performing of their significant non-performing investments, it also represented a far smaller investment. Overall, the performance of the non-qualifying investments made by this fund were, at best, disappointing.[1]

It is worth noting that there has not yet been any exit in the Fund, however the Fund aims to hold unquoted investments for over 4 years.

[1] Data from Financial Times and CityWire.

Appendix 1: Key Personnel

Key Investment Professionals

NAME	JOB TITLE	DATE STARTED	BIOGRAPHY
Chris Allner	Partner & Head of Investments	Mar-12	Chris is a partner of Downing LLP and heads the Investment Team. Chris has over 35 years of venture capital and private equity experience, most recently as Head of Private Equity at Octopus Investments and Chairman of the Octopus Ventures Investment Committee. Prior to that, he was a Director at Beringea and Bridgepoint with previous experience at 3i and Charterhouse. Chris has transacted over 50 investments and has sat on the boards of a number of unquoted and quoted portfolio companies and is currently on the Board of Claresys and Curo. Chris joined Downing in March 2012.
Kostas Manolis	Partner & Head of Unquoted Investments	2015	Kostas joined Downing as a Partner in 2015. He works across the Investment team and is a member of the Investment Committee. He has more than 14 years' private equity experience as investor, board director, portfolio manager, adviser, and business angel. Kostas worked as a corporate finance advisor at PwC, where he advised institutions and management teams on private equity deals and later joined the private equity team of Bank of Scotland in 2006. He was a member of the Caird Capital team that led a successful spin out of a £0.5 billion private equity portfolio from Lloyds Banking Group in 2010. Kostas has worked with management teams through operational improvement, growth, turnaround and successful exits. Kostas holds a degree in Biochemistry and a PhD in Molecular Genetics and is a Chartered Accountant with ICAEW.
Richard Lewis	Investment director	Jan-17	Richard joined Downing in January 2017 where he focusses on supporting businesses seeking growth capital. Richard has 15 years' venture capital and private equity experience. He started his career at Manchester-based North West Equity Fund, working within a team to complete 30 investments over a five-year period. He then moved to London and spent nine years at Mitsui & Co, completing growth and venture capital investments in the UK, USA and Israel. Prior to joining Downing, Richard worked at Radius Equity as the Head of Investment. Richard has an MBA from Manchester Business School.
James Lewis	Investment Director	2012	James joined Downing in 2012 and is involved in sourcing and evaluating transactions, alongside managing a number of portfolio companies. James qualified as an ACA with PwC in London and Hong

			Kong. Immediately before joining Downing he returned to London to run the finance and operations of a small UK-based drinks company. James focuses on businesses seeking growth capital
Alex Cochand	Deal Origination Manager	2016	Alex joined Downing in 2016 as a Deal Origination Manager and is responsible for the sourcing of new investment opportunities. Prior to joining Downing, he worked at Bluebox Corporate Finance where he advised a range of businesses on both fundraising and sale mandates. Alex has passed all three exams in the CFA designation.
Mike Kennedy	Portfolio Director	Dec-17	Mike joined Downing in December 2017 and leads our engagement with our investee companies. Mike co-founded Inogesis, a three year old start-up intelligently connecting innovators with blue-chip organisations to solve business challenges through collaboration. Prior to this he was Managing Partner of Restoration Partners and has spent over 15 years in the venture capital industry with 3i, YFM Group and Electra Partners.
Michael Tefula	Associate	Aug-17	Michael joined Downing Ventures in late August 2017 after completing his MBA at Oxford University. He previously worked at the Oxford Seed Fund, Business Growth Fund, and Deloitte. Michael's role at Downing focusses on sourcing new deals within the growing Ventures portfolio.
Kathy Gromotka	Associate	Mar-18	Kathy joined Downing Ventures in March 2018 from Microsoft where she held a role in Sales Operations. Before that, she spent four years at Bloomberg working on new product launches for the higher education & training market. Kathy holds an MBA from Oxford.
Sophie Andre	Portfolio Analyst	2016	Sophie focusses on monitoring of the portfolio and building a platform of support services for investee companies. Sophie is also responsible for managing co-ordination with other parts of the business, including fund administration, sales and marketing. Prior to joining Downing, Sophie worked in the property industry in Australia and as a client service executive for a large investment management company in the UK.
David Moreau	Venture Partner	2018	Dave Moreau is Chairman of Downing Ventures portfolio company Masters of Pie and sits as an independent non-executive director or chairman on a number of other digital company boards in the UK and Europe. Dave is now working as a Venture Partner to help Downing Ventures portfolio companies and assess potential new investments as part of the team. Trained originally as a journalist, Dave went on to an entrepreneurial career that covered the creation of a number of businesses as founder/CEO, fund-raising, international growth, business development and cross-border M&A.

Steve Robinson	Venture Partner	2017	Steve has been working with Downing since 2017 and has 20 years digital / ecommerce experience. Having trained as a Chartered Accountant at EY he held a number of financial and commercial roles at Kingfisher. He was Argos Finance Director in 2001, set Tesco Direct up for Tesco in 2006 and was CEO M and M Direct, ACHICA and Customer Director B&Q. Most recently Steve is an entrepreneur, non-exec Director and consultant specialising in data driven businesses optimisation.

Source: Downing; AdvantageIQ

Fund Board of Directors

LORD HOWARD FLIGHT - CHAIRMAN

Lord Flight (Chairman) has worked in the financial services industry for over 40 years and co-founded Guinness Flight Global Asset Management. In 1998, upon Guinness Flight's acquisition by Investec, he became joint chairman of Investec Asset Management Limited. He was MP for Arundel and South Downs from 1997 to 2005 and Shadow Chief Secretary to the Treasury between 2000 and 2004. He was appointed to the House of Lords in January 2011. He is chairman of the EIS Association and CIM Investment Management Limited; and is a director of Metro Bank plc, Investec Asset Management Limited and a number of other companies in the financial services sector. He is also a Commissioner of the Guernsey Financial Services Commission.

SIR AUBREY BROCKLEBANK

Sir Aubrey Brocklebank (Senior Independent Director) assumed his first role within the VCT industry in 1997, following a career in accountancy, corporate finance and venture capital. Since then he has gone on to become one of the industry's most experienced directors. Sir Aubrey maintains a wide range of business interests and has been a director of six AIM listed companies. He is chairman of Hargreave Hale AIM VCT 1 plc, and has been chairman of seven other VCTs

RUSSELL CATLEY

Russell Catley has over 30 years' experience in the financial sector and is currently Chief Executive of both Catley Lakeman Securities, the UK's leading provider of institutional structured products and its subsidiary asset manager, Atlantic House Fund Management LLP. Its long-standing clients include JP Morgan, HSBC, Credit Suisse, UBS and Royal Bank of Canada. He was previously a Director at Citigroup Global Markets and AXA Investment Managers UK Limited and was on the Board of AXA World Funds (Luxembourg), one of Europe's largest fund companies from 2001 to 2004.

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Downing FOUR VCT Generalist Shares

This document verifies that *Downing FOUR VCT Generalist Shares* has successfully completed our independent investment evaluation process, having passed through all stages of the governance process in the run-up to the report's publication on the date listed below. It has therefore been awarded the MJ Hudson Cornerstone Trustmark. The full rating report is available upon request.

Downing LLP

PUBLICATION DATE: 12 DECEMBER 20108

The information in this report is based off the full published MJ Hudson Allenbridge report.

Overview:

Downing LLP ("Downing" or "the Manager") is seeking to raise up to £20.3 million (with an over-allotment of £20.3 million) for Downing Four VCT Generalist Shares, with subscriptions possible for the 2018/19 and 2019/20 tax years.

Investment Details:

Investment Type	VCT
Structure	Evergreen
VCT Strategy	Generalist
Launch Date	November 2018
Product AUM (Pre-offer)	£29.5 million
Minimum Investment	£5,000
Manager AUM	£1.1 billion

Manager Contact Details:

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www.downing.co.uk
T: + 020 7416 7780
E: webinfo@downing.co.uk

Best Perfoming Factors:

MANAGER PROFILE

FINANCIAL & BUSINESS STABILITY

INVESTMENT PROCESS

The factors identified above are those elements of the offer that we deem to be the Manager's strongest, relative to the other factors that we rated during their review. For more on how these factors rate compared to the wider market, please see our rankings in MJ Hudson's AdvantageIQ system.

The MJ Hudson Allenbridge Investment Evaluation Process

This product has undergone MJ Hudson Allenbridge's independent investment evaluation process, which is outlined below. All products must pass through a rigorous process of qualitative and quantitative data analysis and are benchmarked against other products in their peer group, as well as undergoing a full investment committee process where scores for each rating factor are awarded. The full report examines each of the ratings factors outlined below in detail, while each element is considered in depth as part of MJ Hudson Allenbridge's 9-stage process, culminating in the report being published and the Cornerstone Trustmark being awarded.

1. Initial information request through AdvantageIQ ✓
2. "IQ process" completed. Data audited and verified ✓
3. Due diligence analysis and meetings ✓
4. Preliminary report drafted ✓
5. Investment Committee and Compliance review process ✓
6. Reviewing draft completed ✓
7. Manager sent draft to review factual accuracy ✓
8. Report finalised and published ✓
9. Cornestone Trustmark awarded ✓

Factors Overview*

MANAGER

MANAGER PROFILE

- Manager's reputation and positioning
- Quality of management
- Servicing investment/investors
- Fundraising ability

FINANCIAL & BUSINESS STABILITY

- Financial stability
- Business stability

QUALITY GOVERNANCE & MANAGEMENT TEAM

- Decision making
- Process and policies
- Oversight

PRODUCT

INVESTMENT TEAM

- Depth of experience
- Collaboration/cohesion and culture oversight
- Alignment
- Breadth of capability

INVESTMENT PHILOSOPHY & STRATEGY

- Philosophy
- Strategy
- Unique selling proposition

INVESTMENT PROCESS

- Diversity of origination channels
- Due diligence & deal selection
- Investment governance & decision-making
- Conflicts

PIPELINE & PORTFOLIO

- Alignment to the strategy (Return Profile & Portfolio Characteristics)
- Depth of the pipeline

RISK MANAGEMENT

- Identification
- Active engagement
- Monitoring
- Risk controls

FEES

- Level and extent of fees
- Quantum of investee company fees and charges
- Transparency provided to investors
- Alignment with investors

PERFOMANCE & PEER GROUP ANALYSIS

- Portfolio investment income
- Realised portfolio return
- Unrealised portfolio value

DATA INTEGRITY & TRANSPARENCY

- This is a rating adjustment applicable across both Manager and Product

*For full in-depth information about these factors please refer to our published methodology available on our website.

Contact

For information about MJ Hudson Allenbridge, our research subscriptions or purchasing of this report please visit our website www.advantageIQ.co.uk, call us on 020 7079 1000 or email us at subscribers@mjhudson.com