



Downing Fund Managers



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Last Word Media

Welcome

With two new fund launches and a rebrand, it's fair to say Downing Fund Managers has had a busy start to 2020.

The high profile appointment of Rosemary Banyard to run an unconstrained UK equity fund, and the addition of Anthony Eaton to manage a global thematic fund, have seen the group embark on a new boutique funds strategy.

As part of that new strategy, the public equity division of Downing LLP (formerly known as Downing Public Equity) has rebranded to Downing Fund Managers to better describe its new funds line up.

In this guide we take a look at just who Downing Fund Managers are, the company's history, the rationale behind the name change and the line-up of funds and fund managers.

We also sit down with founder and investment manager, Judith MacKenzie, to talk through the new hires, plans for the future and understand more about the investment culture Downing Fund Managers has been built on.

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Who are Downing Fund Managers?

If asked to name what funds or products Downing LLP manages, many might go straight to the company's 30-year heritage of running tax efficient investments and privately listed assets.

Founded back in 1986, Downing today runs over £1 billion of assets and has over 25,000 investors. Many of these assets sit in the company's suite of Enterprise Investment Scheme (EIS), Venture Capital Trusts (VCT), and Inheritance Tax (IHT) services and other products, but following the arrival of Judith MacKenzie from Acuity Capital in 2009, the company established a new

division – Downing Public Equity – to manage a range of listed asset funds.

With a background in managing AIM-quoted VCT and IHT investments and a small-cap activist fund, Judith began running the MI Downing UK Micro-Cap Growth Fund in April 2011. Some five years later, in 2016 Downing Public Equity took over management of the Querns Monthly Income Fund, at the time managed by former New Star specialist, Stephen Whittaker – rebranding it the MI Downing Monthly Income Fund.



2009

Judith MacKenzie joins Downing LLP after nine years at Aberdeen Asset and two years at Acuity Capital, a management buyout from Electra.

2011

Judith establishes Downing Public Equity and takes over the MI Downing UK Micro-Cap Growth Fund.

2012

James Lynch joins Downing LLP as part of the unlisted team, before transferring to Downing Public Equity in 2013.

In 2017, Downing Public Equity entered the closed-ended arena with the launch of the Downing Strategic Micro-Cap Investment Trust.

Since its foundation, the public equity division of Downing, described as the company's asset management boutique, has seen its investment team grow to nine people, running a total of £162 million in publicly listed assets (as at 31 March 2020).

Taking this progression forward, in March this year not only did this boutique announce two new managers were joining – Rosemary Banyard and Anthony Eaton – to launch two new funds, it also rebranded to Downing Fund Managers.
“It was the logical time to describe what we do,” explains Judith.

“When we started over 10 years ago, we only managed micro-cap and small cap mandates, whereas today we have expanded into income, and have just launched an unconstrained UK equity fund and a global thematic portfolio.”

“So today we are a group of fund managers, meaning it made sense to change our name.”

Next, we'll look at what lies behind the Downing Fund Managers name.

2016

James Lynch becomes Fund Manager of MI Downing Monthly Income Fund.

2017

The company launches the Downing Strategic Micro-Cap Investment Trust.

March 2020

Downing Public Equity rebrands to Downing Fund Managers and launches the VT Downing Unique Opportunities Fund, managed by Rosemary

Banyard, and the VT Downing Global Investors Fund managed by Anthony Eaton.



What's in a name?

In March this year, Downing Public Equity, the asset management boutique of Downing LLP, hit the headlines when it announced the hires of Rosemary Banyard and Anthony Eaton to launch two funds.

Rosemary was recruited by Downing in September 2019 and in March 2020 the company launched the VT Downing Unique Opportunities Fund for her to run.

Also in March, the arrival of Anthony Eaton as a consultant saw

“We’ve gradually built up the team and now have a very strong Operations team to support the fund managers plus our own PR resource”

the company launch its first thematic fund, the VT Downing Global Investors Fund.

However, buried under these headlines, was the announcement that Downing Public Equity was also changing its name to Downing Fund Managers.

So why the name change and just what sets Downing Fund Managers apart from its peers?

Judith says that it’s the size of Downing Fund Managers, now 11 people – including Rosemary and Anthony, that makes it different from its peers.

“Over the years we’ve gradually built up the team and now have a very strong operations team to support the fund managers plus our own PR resource.”

Today we have everything from AIM, IHT and VCT products, open-ended funds and an investment trust,” says Judith. “So we now have the full suite of products, making it a logical time to rebrand and describe what we do.”

“We are both small and entrepreneurial,” she says. “We have created a platform where we can bring in other fund managers who no longer want to work at large institutions, but like the security and the support we can offer them.”

In addition to looking forward to the sales support Rosemary will receive while managing the VT Downing Unique Opportunities Fund, she says a key attraction in joining Downing was its long history of engaging with companies on corporate governance.

“I had quite a lot of experience with this in my Schroder days where we had a number of large stakes in businesses,” Rosemary says. “There is now a lot more interest from investors in this area and I am looking forward to getting back to engaging in that.” For Anthony, it was Downing’s reputation which attracted him to join. He says: “Not only is Downing seen as a dynamic business,

“We now have the full suite of products, making it a logical time to rebrand and describe what we do”

but everyone who I spoke to prior to joining, talked of its trusted reputation. They have a plan and my fund fitted into that, so it was the perfect place to join.”

Judith explains that by proactively engaging and working alongside management teams to drive returns, she says the philosophy is very much a private equity style approach.

“Predominantly, we have a philosophy that is very much bottom up, in which we use private equity techniques in the public markets,” says Judith. “It is a hands on, high maintenance approach, involving everything from helping a company put together an acquisition strategy, refinancing their debt, buying out older shareholders, or restructuring a board.”



Judith MacKenzie

Judith MacKenzie joined Downing LLP in October 2009 from Acuity Capital, where she managed AIM-quoted IHT and VCT investments and a small-cap activist fund. Soon after joining she founded Downing Public Equity and became manager of the open-ended MI Downing UK Micro-Cap Growth Fund. In 2017, Judith became lead manager of the group's first closed-ended mandate, following the launch of the Downing Strategic Micro-Cap Investment Trust.

“My heritage and background have always been in small and micro-cap investing, and very much looking at both public and private markets at the same time,” she says. “I started off about 24 years ago as a small cap analyst at Brewin Dolphin, before moving to Aberdeen where I spent nine years looking at private and AIM-listed companies.”

Working alongside Judith in managing the Downing micro-cap portfolios is Nick Hawthorn, fund manager.



Nick joined Downing in September 2015 from BP Investment Management, where he worked in the private equity team. Prior to this, he worked for Aberdeen Asset Management in group finance.

Judith and her team are value-led investors, buying businesses that they believe are attractively valued to improve returns and reduce downside risk.

Their proprietary research and disciplined due diligence process can take many months to complete and the funds draw on the team's collective experience in both private and public equity markets.

James Lynch

James Lynch joined Downing LLP in February 2012 initially as part of the private equity team, gaining transaction experience in the small and medium enterprise space across a range of industries, before transferring to the public equity side in 2013.

Prior to Downing, James worked within the asset management division of Ernst & Young after specialising in smaller companies at HW Fisher & Company.

“I cut my teeth analysing smaller companies through my chartered accountancy training,” says James. “Ultimately that experience taught me how to holistically look at a set of smaller company’s accounts and understand where things can be hidden and manipulated.”

James took over sole management of the MI Downing Monthly Income Fund in June 2016. The fund adopts a multi-cap, multi sector approach, that applies the group’s small-cap expertise across a range



of UK market capitalisations and sectors. “While equity markets in general are a good place to search for income, the equity income space is dominated by more traditional blue-chip funds,” he says.

“What we are trying to do is access some of the smaller companies that can provide a distribution, as well as some diversification away from those blue-chip companies.”

Working with James on the MI Downing Monthly Income Fund is Josh McCathie. Josh joined Downing as an analyst in 2018, having previously been at BRI Wealth Management, where he worked in the UK equities team, focusing on FTSE 350 companies.



Rosemary Banyard

Rosemary Banyard joined Downing Fund Managers in March 2020 to launch the VT Downing Unique Opportunities Fund. With over 30 years of fund management experience under her belt, it was on joining Schroders in 1997 that Rosemary rose to prominence, developing a reputation as one of the leading fund managers in the UK.

For almost 20 years Rosemary was known for running the acclaimed Schroder UK Smaller Companies Fund with Andy Brough and was for many years the lead manager of the award-winning Schroder Mid Cap Fund investment trusts, as well as heading up several other segregated UK equity mandates, managing total assets of about £1 billion.

“In my whole time I have focused on managing UK equity funds, specialising in small and mid- caps, and to an extent the lower end of the FTSE 100,” she says.



Launched on 23 March, the VT Downing Unique Opportunities Fund aims to invest in 25 to 40 UK mid and small cap companies that can achieve above average returns on equity because they have a sustainable competitive advantage.

“Downing is a great fit for me because they have extensive experience in both micro-cap and income investing, my target range of companies essentially starts where they leave off in terms of scale,” she says.

“I believe I have honed my investment philosophy and process over the years and this fund is the culmination of that evolution.”

Anthony Eaton

Anthony joined Downing Fund Managers as an investment consultant in March 2020 to manage the newly-launched VT Downing Global Investors Fund.

Anthony was formerly lead manager of the CF JM Finn Global Opportunities Fund from 2005 until its sale to Thornbridge in 2019. Under his stewardship, the fund established a long-term track record, achieving 10.40%* compound annualised growth.

The VT Downing Global Investors Fund invests in companies, no matter their geography, that supply the wants and needs of the expanding middle-class population.

“The investment philosophy of the fund is that the dominant driver of events is going to be the expansion of the global middle-class. The needle movers within that will be the six billion population outside the West, and the Asian middle classes in particular. The



strategy is to own businesses, wherever they are based, that cater to the needs and wants of this homogenous group, without geographical borders.”

Anthony has been applying this investment philosophy and process for over 16 years, and to keep individual stock specific risk low, the fund aims to invest in around 150 positions. “The fund is thematically invested – we seek to own businesses worldwide that engage with this growth phenomenon,” he says. Anthony uses a number of investment screens to identify emerging patterns and then concentrates on selecting appropriate baskets of investments, rather than picking individual stocks.

*Source: Thornbridge Global Opportunities Fund, August 2019 factsheet



Q&A:

Judith MacKenzie

Who are Downing Fund Managers?

Downing LLP itself is an asset manager focusing on investments in UK smaller companies, renewables, and asset-backed investments in the private arena. Downing was established over 30 years ago and has grown to over £1 billion under management. Downing Fund Managers have leveraged that great heritage and we are responsible for our range of open and closed-ended mandates and the listed assets within our VCT and AIM IHT portfolios.

Why did you rebrand?

With two new mandates coming on board, it was a logical time to change our name to what we actually do. I had named the division Public Equity when I formed it 11 years ago, which alluded to Downing's public equity background and focused approach on micro-cap assets – now we have migrated into other strategies and mandates with other fund managers, so we rebranded to Downing Fund Managers.



Can you talk through the hires of Rosemary Banyard and Anthony Eaton and what they bring to Downing Fund Managers?

The hires of Rosemary and Anthony are part of the launch of a new 'boutique' funds strategy. Our overall goal is to provide a partnership to grow mandates that often get overlooked by larger houses, allowing investors access to established, highly experienced fund managers with proven track records. This should provide the freedom for these managers to articulate and practice successful strategies without the constraints of a larger institution and share the economic equity of success.

It is fantastic and a real coup to have Rosemary on board. She is a fund manager who has been in the industry for over 30 years, during which time she has established an excellent track record, much of which was during her time at Schroders.

The VT Downing Unique Opportunities Fund is a focused UK equity offering, which invests slightly up the market curve to what we already manage and is an unconstrained portfolio. It is a fund

“Our overall goal is to provide a partnership to grow mandates that often get overlooked by larger houses, allowing investors access to established, highly experienced fund managers with proven track records”

that will be complimentary to our existing strategies and Rosemary will provide valuable experience to the rest of the Downing Fund Managers team.

Anthony's appointment meanwhile marks a significant step in the managed growth of our quoted fund management business, allowing us to launch the boutique funds strategy. We believe the VT Downing Global Investors Fund will have



wide appeal - as an asset class, global equities, provide unlimited opportunities to identify investment prospects at attractive valuations that have the potential to grow investors' capital over the long-term.

What makes you different?

We are not frenetic asset gatherers; we have taken 11 years to grow our business to this level carefully growing assets and ensuring we had the appropriate vehicle for the mandates that we were offering. We are not a large house - which has its benefits and its drawbacks; for investors they can easily see what they are getting - direct from the horse's mouth.

For the managers we hope to provide a platform for growth for their chosen mandates, which also provides equitable economics for managers that are prepared to be entrepreneurial.

What are Downing Fund Managers' plans going forward? Can we expect more hires?

Firstly, it is important that we stick to our knitting. We have a big 'day job' to do so we don't want to be distracted - as managers we

are not 'protected' by a big institutional fund management house, so we have to be resourceful, and most importantly get out to see investors while prioritising the management of the funds. Our job is to return value for our shareholders and stakeholders.

At the moment, our plan is to consolidate what we have and then in the future look at the possibility of adding other managers and mandates. The two new managers that have joined us have been talking with us for over a year in one case and nearly a year in another - we take our time when courting any new fund manager. I don't expect that there will be new mandates joining in the short term. However, over the longer term we will be selectively looking for mandates that have a long track record that might fit.

The key is that we are going to do it very carefully because we want to grow this business for the next few decades, not just the next five years.

How would you describe Downing Fund Managers' investing style?

We describe ourselves as value-led investors but there are so

“We often invest in things that many other investors would not want to touch. We invest over a long investment cycle, looking at between a three to seven-year time horizon”

many factors to value and investors have so many interpretations of it. We are not scared of buying growth, we just want to pay the right price for it. What we try to do is buy a company where we see that their earnings can double over a two-to-three year time period, which happens a lot in the small cap space.

Can you outline your process and give a live example?

In the small cap space, we proactively engage and work alongside management to realise value and drive returns. We often invest in things that many other investors would not want to touch. We

invest over a long investment cycle, looking at between a three to seven-year time horizon.

The investment process itself is cash flow focused and aims to identify companies which have either historically, current, or near-term potential to generate significant positive free cash flows.

Volex is a good example – it’s a manufacturer and distributor of power cords and cable assemblies. It had a series of management teams over a number of years, but had never managed to move away from being a lower margin commodity.

However, we backed a new management which focused on killing the lower margin business and moved to improve margins but also make strategic acquisitions. We supported the acquisition strategy and helped cornerstone the fundraise - an excellent management team have done the rest; upgrading earnings several times over the last year and now generating c.\$12 million of free cash flow. The business is still on a single digit price-earnings ratio despite having more than doubled its share price.



Get in touch



For information on
**VT Downing Unique Opportunities
Fund** please visit:
www.downingunique.co.uk



For information on
VT Downing Global Investors Fund
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