

MI Downing UK Micro-Cap Growth Fund

May
2016



About the Fund

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

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

Why Downing micro cap?

- ▶ Experienced & qualified team headed by Judith MacKenzie - Citywire AAA¹ and F.E. Five Crown² rated.
- ▶ Private equity approach to micro cap companies, drawing on Downing's private equity and venture capital heritage.
- ▶ Investment Committee oversight provides access to 100+ years of investment experience.
- ▶ Value strategy with rigorous bottom up approach.
- ▶ Exhaustive diligence process that can take up to 18 months.
- ▶ Concentrated portfolio of 25 to 30 investments which we believe provides optimal diversification.
- ▶ Access to strategic investments.
- ▶ Only invests in profitable businesses with strong management teams and a sustainable competitive advantage.

¹Source: Citywire (for the three year risk adjusted performance 30/04/2013 - 30/04/2016)

²Source: Trustnet/F.E (for the three year period to 30/04/2016)

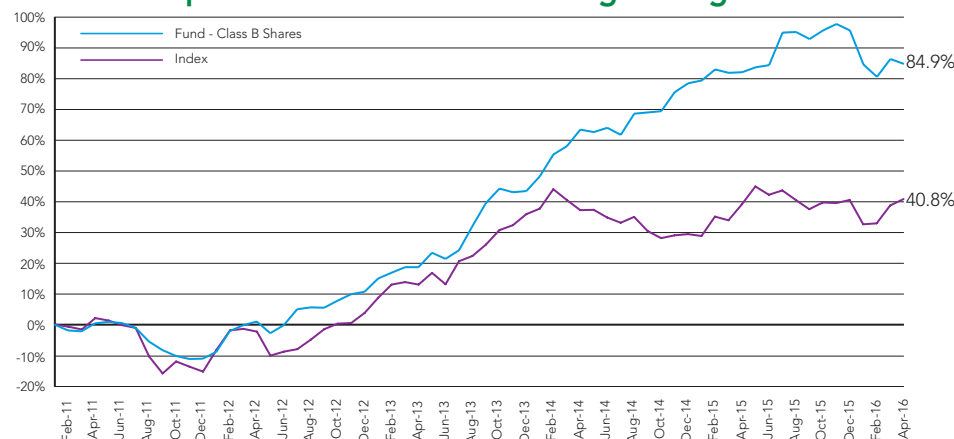
Market commentary

During the month the Fund returned -0.6% versus the benchmark which returned 1.6%. The majority of the performance drag came from Sprue Aegis PLC, which we discuss below. Relative performance year-to-date has been disappointing, mainly due to profit warnings from Hornby in February and then from Sprue this month. We are confident that our portfolio companies retain material unrealised value and we are working hard to maximise and realise this value for our investors in the long term.

In April, Sprue Aegis, the manufacturer and distributor of smoke and carbon monoxide alarms, announced that they were increasing their warranty provision to £6.8m due to a battery fault from a third party supplier which causes a premature low battery alert. They also noted tougher than expected trading conditions in France, due to overstocking by distributors, and Germany, as a result of certification delays. The combination of these unforeseen developments led management to revise guidance down significantly. We met with management shortly afterwards, and Sprue has since announced that it has received certification for its new battery product in Germany, with shipments due to commence in the next Quarter. We believe the overall demand for Sprue products and its market position have not changed over the long term, although the share price has clearly been affected by these production issues.

On a more positive note, Petards, the supplier of security, surveillance and engineering solutions, performed strongly following a small acquisition of a business which provides security and speed enforcement solutions to UK police forces. The acquisition is immediately earning-enhancing and was viewed positively by the market. Elsewhere, we have taken advantage of the volatility in the Hornby share price to average down our entry price. We do not believe that the overall fundamentals of the business have changed and we have been encouraged by recent management updates.

Cumulative performance under Downing management



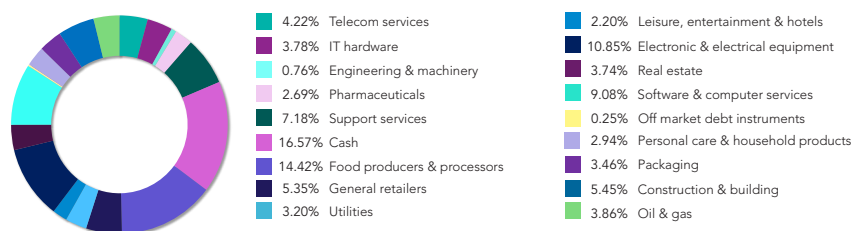
The graph shows the cumulative performance under Downing management (since Feb 2011)

Cumulative performance - Class B Shares (%)							
	1m	3m	6m	YTD	1y	3y	5y
Fund	-0.55	0.09	-5.56	-5.58	1.47	55.70	84.18
Index	1.57	6.21	0.82	0.28	1.25	24.62	37.98

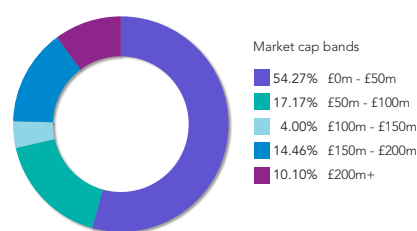
Discrete performance - Class B Shares (%)					
	30/04/2015 30/04/2016	30/04/2014 30/04/2015	30/04/2013 30/04/2014	30/04/2012 30/04/2013	30/04/2011 30/04/2012
Fund	1.47	11.45	37.67	17.55	0.63
Index	1.25	1.42	21.37	15.72	-4.32

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

Portfolio by sector*



Portfolio by company size*



Top 5 portfolio holdings*

Company	% of Fund
Redhall Group PLC	5.4
Conviviality Retail PLC	5.4
Finsbury Food Group PLC	5.2
Produce Investments PLC	5.1
Universe Group PLC	4.9

*Source: Maitland Institutional Services
As at 29 April 2016

Lead Fund Manager: Judith MacKenzie

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

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

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

Key facts as at 29 April 2016

Structure

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

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

September 2008 / February 2011

Fund size

(B and C Share Class combined)
£21.9m

Share price

Class B 169.46p
Class C 111.13p

Number of holdings

29

Dividends

Accumulation only

Liquidity

Daily pricing and daily dealing

Minimum initial investment

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

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

Fund charges

Initial charge: B & C Accumulation = 5%

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

Performance charge
There are performance fees on the C Share Class only. For further information please refer to the Key Investor Information Document. The Fund may also pay fees and charges related to administration, custody and other reasonable expenses.

ISIN codes:

B Accumulation GB00B2403R79
C Accumulation GB00B7SB5C00

Contact details

Manager

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How to apply

Tel: 020 7630 3319
Visit www.downing.co.uk to access the Application Form

Platforms hosting the Fund

A J Bell	James Hay
Aegon	Novia Financial
Ascentric	Nucleus Financial
Cofunds Institutional	SEI Investments
Cofunds Retail	Transact
Hargreaves Lansdown	

Risk warning: your capital is at risk. Investments & the income derived from them can fall as well as rise and investors may not get back the full amount invested. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Performance figures above are taken from daily valuations provided by Maitland Institutional Services. Inception is the date of the commencement of the investment management mandate – 4 Feb 2011. Return is the total return (value of the investments plus cash including income after all expenses and charges), ignoring taxation. Please note that past performance is not a guide to future performance.

Important notice

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