

MI Downing UK Micro-Cap Growth Fund

September
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 31/08/2013 - 31/08/2016)

²Source: Trustnet/FE (for the three year period to 31/08/2016)

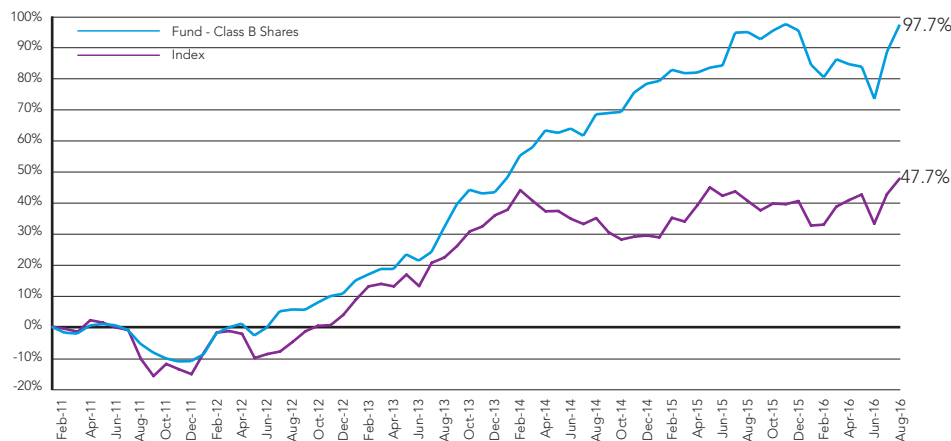
Market commentary

In August, the fund outperformed the benchmark by 1.1%, generating an overall return of 4.6%. Key contributors to the portfolio throughout August were Science in Sport Plc, Scisys Plc and Smart Metering Systems Plc, which generated returns of 29.1%, 29.4% and 20.8% respectively.

Science in Sport Plc announced that they are to become the Official Sports Nutrition Supplier to USA Cycling, as well as Official Sports Nutrition Partner to Liverpool Football Club. Scisys Plc has maintained its encouraging start to the year, as reported at the AGM in June. Strong cash generation has continued and the company has indicated that current consensus forecasts will be significantly exceeded even after allowing for hedging impacts. Smart Metering Systems Plc share price has benefitted from continued positive investor sentiment. We believe that the structural drivers for this business are excellent and that it remains undervalued by the market.

Key detractors this month included Braemar Plc, down 9.4%. Revenues slumped during the half year period due to overcapacity in the dry cargo market. As a result, they will report full year results materially below 2016. We remain holders, bolstered by the attractive yield and the cash generative business model, though we are closely monitoring the sector and the likelihood of any dividend cuts which would cause the shares to sell off. Pennant International Group Plc was down 15.7% after they announced a placing for £3.56m at a discount to the market price.

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	4.63	7.43	9.41	0.99	1.26	49.72	109.28
Index	3.54	3.62	11.11	5.18	5.10	20.75	64.83

Discrete performance - Class B Shares (%)

	31/08/2015 31/08/2016	31/08/2014 31/08/2015	31/08/2013 31/08/2014	31/08/2012 31/08/2013	31/08/2011 31/08/2012
Fund	1.26	15.72	27.77	25.03	11.80
Index	5.10	4.14	10.31	28.66	6.10

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*



3.69%	Telecom services	14.65%	Electronic & electrical equipment
5.90%	IT hardware	3.83%	Real estate
2.57%	Pharmaceuticals	18.16%	Software & computer services
6.90%	Support services	0.24%	Off market debt instruments
4.24%	Cash	4.17%	Personal care & household products
13.05%	Food producers & processors	4.91%	Construction & building
4.24%	General retailers	4.69%	Oil & gas
3.62%	Utilities	2.53%	Engineering & machinery
2.61%	Leisure, entertainment & hotels		

Portfolio by company size*



Market cap bands	
50.86%	£0m - £50m
15.35%	£50m - £100m
15.78%	£100m - £150m
9.07%	£150m - £200m
8.93%	£200m+

Top 5 portfolio holdings*

	% of Fund
Amino Technologies PLC	5.90
Science in Sport Ltd	5.27
Universe Group PLC	5.25
Redhall Group PLC	4.91
Pennant International Group PLC	4.81

*Source: Maitland Institutional Services
As at 31 August 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 31 August 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)
£22.9m

Share price

Class B 181.24p
Class C 118.95p

Number of holdings

30

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	Standard Life
Hargreaves Lansdown	Transact

Risk warning: your capital is at risk. Investments & the income derived from them can fall as well as rise and investors may not get back the full amount invested. Investments in smaller companies will normally involve greater risk or volatility than investments in larger, more established companies. Performance figures above are taken from daily valuations provided by Maitland Institutional Services. 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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12 September 2016

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