



# Downing AIM Estate Planning Service

## Due Diligence Questionnaire

For investor professionals only

January 2020

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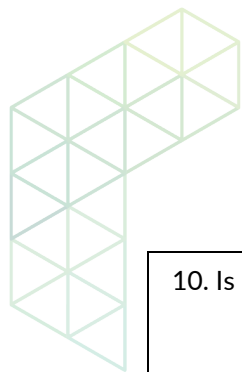




## Overview of the product – Downing AIM Estate Planning Service (the Service)

1. Name of Provider	Downing LLP
2. Type and category of tax product	Inheritance tax relief service
3. Brief product explanation, including details of the underlying investment structure and how the manager aims to achieve their returns.	Provides investors with the opportunity to obtain up to 40% inheritance tax (IHT) relief after two years by owning a portfolio of qualifying shares listed on the Alternative Investment Market (AIM). This strategy enables investors to maintain control of their assets. Investors can withdraw funds from their portfolio at any time, subject to liquidity, 10 days' notice and Downing's discretion. Downing aims to generate capital growth from the underlying AIM quoted shares, in addition to the IHT benefits.
4. Is the Service listed on a stock exchange?	No.
5. What are the Service's main objectives?	<p>The main objectives are to:</p> <ul style="list-style-type: none"><li>• Provide investors with the opportunity to obtain up to 40% IHT relief after only two years on the value of their portfolios of AIM traded companies (provided shares are held for at least two years and at death).</li><li>• Allow investors to retain full ownership of the investments (no need for trusts or to gift assets to obtain IHT relief).</li><li>• Generate capital growth from the portfolio of investments.</li><li>• Enable investors to withdraw capital from their portfolio at any time, subject to liquidity and 10 days' notice.</li></ul>
6. How is the Service structured?	The Service a discretionary managed portfolio of companies qualifying for Business Relief (BR), which are listed on AIM. Each investor will own, through a nominee, a beneficial holding in each underlying business.
7. Where is the Service based?	UK.
8. When will the funds invested be deployed in the Service?	Funds will be invested in the Service when the proceeds have cleared the client account. We anticipate that it will take up to three months to become fully invested, although this cannot be guaranteed.
9. Is Downside Protection Cover available?	In order to reduce the risk of loss during investment, Downing has put in place Downside Protection Cover (for a minimum of two years). This policy, which is underwritten by an A-rated insurance provider, covers the first 20% of any net loss in value (after charges) on death under the age of 90. This policy has no exclusions for pre-existing medical conditions, no need for medical questionnaires, and is at no additional cost to investors.

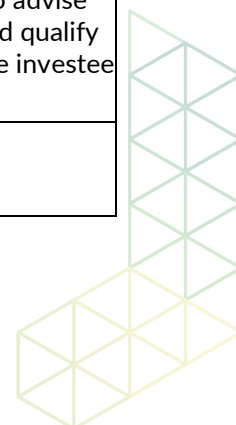


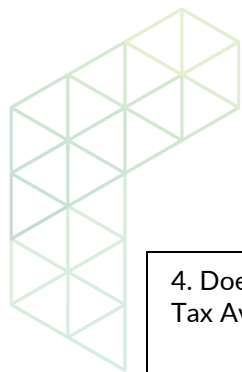


10. Is Life Cover available?	There is an option to take out Life Cover on your investment, for the first two years of investment, subject to exclusions, passing a medical questionnaire and with an additional premium of 2.25% p.a. being payable. Where an investor dies within two years of the investment date, the sum insured is a fixed amount of 40% of the original gross subscription (including any initial charge from Downing and any initial adviser charge), upto a maximum payout of £100,000 (equivalent to a gross subscription of £250,000). If this option is taken out, the investor will not get Downside Protection Cover for the two years the life cover is in place.
11. What asset classes/sectors are this investment based upon?	Small UK companies, traded on AIM.
12. Will investors be provided with the opportunity to leverage their investment? If so, what are the terms of this?	No.
13. Will the structure be taking on any lending? If so, what are the terms of this?	No, although some of the underlying investments may have lending – the Manager will monitor this to ensure it is within the criteria set out in the investment objectives and that any lending is reflective of appropriate levels for the size and type of company.
14. IHT assets under management	Over £500 million as at 30 September 2019.
15. Please describe the company history/track record of investing within AIM IHT funds	Please refer to the latest Downing AIM Estate Planning Service Factsheet for past performance.

## Tax & legislation implications

1. What tax reliefs are available to investors?	<b>Inheritance tax relief:</b> the value of investments held in the Service for two years or more at the date of death should qualify for IHT relief provided the underlying investments are traded on AIM and continue to undertake a qualifying trade. Downing does not have control over the investee companies and they may change their trade or seek to stop being traded on AIM, such that they no longer qualify for IHT relief. In this case Downing will seek to dispose of these investments and source a replacement.
2. Do you take any tax counsel and accounting opinions?	Philip Hare & Associates LLP have been retained to advise on whether the selected investee companies should qualify for tax relief and provide ongoing monitoring of the investee companies for IHT relief purposes.
3. Has the Service been granted HMRC approval?	N/A.



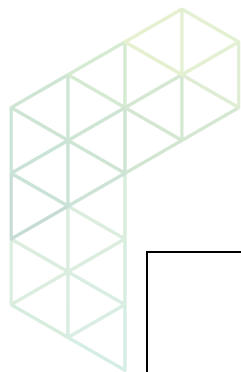


4. Does the investment fall within the Tax Avoidance Scheme Regulations?	No
5. Have any of your investments been declined for approval by HMRC in the past or experienced significant delays in receipt of relief – if so please give full details.	No

## Operational, day-to-day management

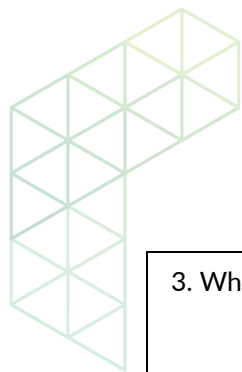
1. Who are the main people involved in the investment management of this IHT Service? Please provide details of their experience	<p>Downing LLP is responsible for the management of the service and its advisory committee is an integral to the investment process. The committee meets regularly, welcoming Donald Robertson (Independent Adviser). Investments are proposed by the lead Fund Manager, Judith MacKenzie. James Lynch (Fund Manager), Kevin Addison (Head of Sales and Distribution), Nick Hawthorn (Investment Manager), Cheryl Vickers (Investment Operations Manager), Josh McCathie (Analyst), Catherine Cassell (Investment Operations Executive) and Stephanie Fowler (Investment Operations Assistant) work in Judith MacKenzie's Public Equity team.</p> <p><b>Lead Fund Manager - Judith MacKenzie</b> Judith joined Downing in 2009 and is a Partner and Head of Downing Public Equity. Previously she was a Partner at Acuity Capital, managing AIM-quoted VCT &amp; 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.</p> <p><u>Member of the Investment Committee:</u></p> <p><b>Donald Robertson – Independent Adviser</b> Donald is an independent adviser to our Public Equity team. As the former co-founded of SVM Asset Management, Donald has over 30 years' of smaller company quoted investment experience</p>
2. What level of due diligence is performed by the advisory committee before engaging in an investment or disposal of an investee company?	<p><u>Selection process</u> Companies will be selected predominantly through analysis of balance sheets, the sustainability of margins and cashflow yields, and through meetings with management.</p>





	<p>The following criteria will be reviewed in the assessment of potential investee companies:</p> <ul style="list-style-type: none"><li>• The quality of the management team – including the ability to align management's interests with that of our investors.</li><li>• 'Barriers to entry' – the business' ability to maintain an advantage over its competitors in order to protect its long-term profits, market share and margins.</li><li>• The profitability of the company and cash flow yield.</li><li>• Its valuation in comparison to similar companies.</li><li>• The growth potential of the company and its sector.</li></ul> <p>Investments will be purchased and sold based on investment considerations, while endeavoring to maintain IHT reliefs, where possible. However, investments will generally not be sold unless there are suitable re-investment opportunities, in order to maintain investors' IHT reliefs.</p> <p>The Manager regularly reviews client portfolios against its approved list of investments. Under current legislation, investors can reinvest the proceeds received on exit from a company that qualifies for IHT relief into shares in another BR qualifying company to maintain IHT relief, as long as (i) the sales proceeds are reinvested within three years of the sale and (ii) both the original and replacement shares have been held for a total of at least two out of the last five years.</p> <p>Set out below are some issues that may give rise to disposals of particular investments:</p> <ul style="list-style-type: none"><li>• <b>Increased risk:</b> increased levels of borrowings, losses incurred, dividends reduced or cancelled, management changes, falling share prices etc., could signify increased risk in an investee company.</li><li>• <b>Valuation:</b> Downing would consider either taking profits or making a full disposal where a share price has risen to a level where it believes the company has become materially over-valued.</li><li>• <b>Non-qualification:</b> a holding may be sold, subject to liquidity, if it ceases to qualify for BR e.g. an investee company moving to another market or being subject to a takeover by a non-qualifying company.</li><li>• <b>New opportunities:</b> in order to fund investments in new opportunities, disposals may be required. New investments would be considered, for example, where a line of stock becomes available in an attractively rated company which could provide extra diversification to a Portfolio.</li></ul> <p>Downing also manages a range of other funds focused on unquoted and AIM quoted stocks which provide the opportunity for the ISA to co-invest.</p>
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3. Who is the manager and custodian?	Manager – Downing LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HD. Custodian – Brooks Macdonald Asset Management, 72 Welbeck St, London W1G 0AY.
4. Please provide details of the quality of the third parties involved. What would happen if one of these parties was to go into administration?	The third parties involved (Philip Hare & Associates LLP and Brooks Macdonald) are recognised specialists in their field. There would be no material impact on the Service if any of these third parties went into administration and were replaced. Financial Services Compensation Scheme (FSCS) would be available subject to its limits.

## Terms

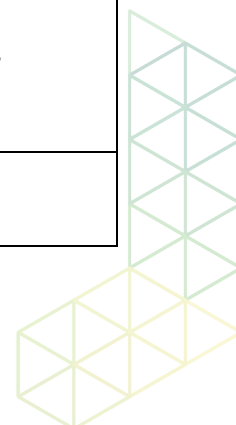
1. What are the subscription limits?	The minimum initial subscription is £20,000 and there is no maximum. This subscription can be split between the Downing AIM ISA service and the Downing AIM Estate Planning Service and up to the maximum ISA limit may be subscribed or transferred on an annual basis from the Downing AIM Estate Planning Service to the Downing AIM ISA.  Investors may make further investments to top up their portfolio at any time during each tax year. Such top ups are subject to a minimum of £10,000 and the annual limits for ISAs.
2. What are the opening and closing dates?	N/A (ongoing).
3. Health Declaration required for Downside Protection or Life Cover?	None required for Downside Protection. Short questionnaire required for Life Cover – see application form for details.
4. How long will it take to build the investor portfolio?	It is anticipated that each portfolio will typically be invested in AIM quoted companies within three months of receipt of a completed application form and cleared funds.
5. How many holdings will the investor portfolio contain?	Risk will be diversified by spreading funds across at least 20 companies from several different sectors.
6. Will you accept in specie transfers in if applicable?	Yes, subject to size/liquidity of existing portfolio.





## Charges

1. Initial costs	<p><b>Downing's initial charge:</b> 0% for advised clients, or 2% where intermediary commission is requested (e.g. execution only applications). Out of its fees, Downing will pay all the costs of the service, including initial commission where applicable. Commission: Intermediaries who are permitted to receive commission can be paid initial commission, usually at the rate of 2% of the amount subscribed. Commission is payable by Downing out of its fees.</p> <p><b>Initial adviser charge:</b> If an Adviser Charge has been agreed between the Intermediary and the Investor in respect of this Service, this may be facilitated from the investment. The fee will be deducted from the amount invested and paid to the Intermediary. Alternatively, the Investor can pay this fee personally.</p>
2. Annual Management Charge	<p><b>Downing annual management charge:</b> 2% plus VAT per annum of the value of each portfolio. Where annual trail commission is payable to an Intermediary, Downing will charge an annual fee of 2.5% plus VAT. Out of its fees, Downing will pay the insurance premium, custodian and nominee fees and annual trail commission, where applicable.</p> <p>Commission: Intermediaries who are permitted to receive commission can be paid annual trail commission, usually at the rate of 0.5% of the values of the Portfolios they have introduced. Commission is payable by Downing out of its fees.</p> <p><b>Annual adviser charge:</b> an annual adviser charge may be facilitated through the Service. The fee will be deducted from the investor's portfolio and paid to the intermediary once a year. Alternatively, the investor can pay this fee personally.</p>
3. Performance fees	Performance or success fees are not payable.
4. Dealing charges	Downing does not charge dealing charges, however, third party transactional fees will apply.
5. Administration fees	<p><b>Probate valuations</b></p> <p>Valuations of up to six listed securities: £250 plus VAT payable to the administrator.</p> <p>Valuations of seven or more listed securities: £200 plus VAT and £10 plus VAT per security held.</p> <p>Downing does not charge any other administrative, service, dealing or exit fees to the Service or to the underlying businesses in which it invests.</p>
6. Is there an annual cap on charges? If so what is it?	No.





## Realisation of investment

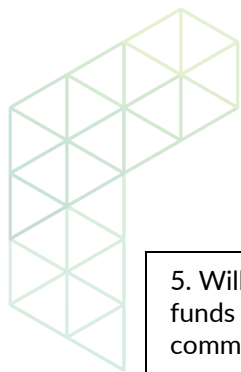
1. Can investors withdraw their funds at any time?	<p>Investors may request to withdraw or transfer funds from the Downing AIM Estate Planning Service at any time (subject to liquidity).</p> <p>It is anticipated that withdrawals will usually be satisfied within 10 working days of Downing's receipt of an investor's written request.</p> <p>In the case of requests to withdraw £30,000 or more, Downing will endeavour to raise the entire amount within the timescale requested by the investor but reserves the right to take a longer period as may be required to ensure the orderly disposal of investments.</p> <p>Investors should bear in mind that their portfolio will be invested in companies which may have limited liquidity and it may be difficult to accommodate large orders for sales or purchases of underlying investments.</p>
2. Will investors be provided regular valuations of their investments?	<p>Investors will receive quarterly valuation statements. In addition, investors will receive half-yearly reports, made up to 31 March and 30 September in each year, containing details of all investments in their portfolio, together with an investment commentary.</p> <p>Investors will be able to view their investment portfolio online using the web-based access provided by the Custodian.</p>

## IHT funds – further detail & track record

1. Please confirm when you first entered the IHT market.	March 2012
2. Comment on availability and quality of suitable qualifying investments over the past 12 months and how this has changed over the last three years- and if you raised funds in the last 12 months, please explain why you are in a position to come back for additional funding this year.	The AIM market provides an investment pool of over 1,000 companies in which to invest. The Service invests in 20-30 companies and the Fund Manager has not had an issue sourcing appropriate qualifying companies since the Service commenced and there is nothing to make us believe that this will not be any different in the foreseeable future. The Service is open ended, so Downing continues to fund raise throughout the year.
3. If a top up issue, please provide a brief comment on the structure of the existing portfolio of investments. What is the average tranche issue size?	N/A.
4. Provide your views on dividend policy	The portfolios are structured for growth and do not pay out income. This is reinvested/used to cover fees.







<p>5. Will there be co-investment with other funds (including VCTs if relevant)? Please comment on previous co-investments.</p>	<p>Yes. Downing Estate Planning Service has co-investments with Downing-managed VCTs and the MI Downing UK Micro-Cap Growth Fund. This co- investment approach allows the Manager to take larger holdings in companies and therefore have a more influential position with the company than would normally be awarded through smaller shareholdings. Priority on allocation of investments/sale is given to those funds with the liquidity requirement with the highest proportion of cash/NAV requiring investment or exit. This co-sharing arrangement is monitored by the Downing Conflicts Committee.</p>
<p>6. Please provide a copy of any independent reviews of your product.</p>	<p>There are no independent reviews currently available.</p>

