Downing AIM ISA

Brochure

Downing

Important notice

We would like to take the opportunity to inform you that investments into companies listed on the Alternative Investment Market (AIM) are high risk and an investment through the Service will not be suitable for all recipients of this Brochure. It is important you know about the risks involved with investing and we have set these out on pages 4 and 5 of this document. Please also remember that the value of an investment may go down as well as up, you may not get back the full amount invested, and tax rules and regulations are subject to change.

The Downing AIM ISA (Service) is a tax wrapper for the Downing AIM Estate Planning Service, which has its own product literature that you should read before investing.

If you are in any doubt about the content of this Downing AIM ISA brochure (Brochure) and/or any action that you should take, you should seek advice immediately from an independent financial adviser authorised under the Financial Services and Markets Act 2000 (FSMA) who specialises in advising on opportunities of this type.

Applications from retail investors will only be accepted if submitted through an FCA authorised intermediary whose details are completed in the Application Form. Nothing in this Brochure constitutes investment, tax, legal or other advice by Downing LLP (Downing).

This Brochure, together with the Terms & Conditions document (Terms) and the Application Form, constitutes a financial promotion pursuant to Section 21 of the FSMA and is issued by Downing LLP, St Magnus House, 3 Lower Thames Street, London EC3R 6HD, which is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

No person has been authorised to give any information, or to make any representation, concerning the Service other than the information contained in this Brochure, the Terms and the Application Form and, if given or made, such information or representation must not be relied upon.

This Brochure does not constitute a direct offer to sell or a solicitation of an offer to purchase securities and in particular does not constitute an offering in any state, country or other jurisdiction where, or to any person or entity to whom, an offer or sale would be prohibited.

Downing has taken all reasonable care to ensure that the facts stated in this Brochure are true and accurate in all material respects and that there are no other material facts whose omission would make any statement of fact or opinion in this Brochure misleading.

All statements of opinion or belief contained in this Brochure and all views expressed and statements made regarding future events represent Downing's own assessment and interpretation of information available to it as at the date of this Brochure. No representation is made or assurances given that such statements or views are correct or that the objectives of the Service will be achieved. Investors must determine for themselves what reliance (if any) they should place on such statements, views or forecasts, and no responsibility is accepted by Downing in respect thereof.

The Financial Services Compensation Scheme, which provides compensation to eligible investors in the event that an FCA authorised and regulated party (Downing, the custodian, or a retail bank) fails to meet its obligations, will apply to the Service.

If you have any questions, please call us on 020 7416 7780. Please note, telephone calls may be recorded for monitoring purposes.

For UK investors only.

Information correct as at 13 March 2018.

Hello

Welcome to the Downing AIM ISA. The government offers generous tax breaks to encourage you to save. One of the most popular and accessible ways is through an Individual Savings Account (ISA). In 2016/17, approximately £62 billion was subscribed to ISAs[1].

ISAs allow you to invest in either stocks and shares or cash, while benefitting from tax-free income (e.g. from interest or dividends). In addition, any capital growth is exempt from capital gains tax. The best way to think of an ISA is a 'wrapper' in which you can shelter your savings and investments from tax.

However, you may be unaware that the value of the investments and cash held in ISAs are usually counted as part of your taxable estate – so if you have built up a substantial nest egg and want to pass it on to your family when you die, it may be subject to 40% inheritance tax (IHT).

Our Downing AIM ISA (a Stocks and Shares ISA) has been designed to allow you to qualify for IHT relief after only two years, as well as benefitting from the ISA tax concessions (so long as shares are held at death). The IHT relief is available because we only invest in shares of companies listed on the Alternative Investment Market (AIM) that we believe qualify under Business Relief (BR) legislation.

In addition to the IHT benefits, the Service aims to generate capital growth from the underlying companies (although please note this is not guaranteed).

The Service also benefits from Downside Protection Cover, which is designed to reduce the impact of loss to you by covering a loss in value of up to 20% on your net investment (in the event of death under the age of 90). The policy is automatically included at no extra charge for all such investors – with no medical questionnaires or exclusions for pre-existing conditions. You can find out more about this policy on page 16.

This Brochure is designed to give you an overview of the Service, and our approach to managing it.

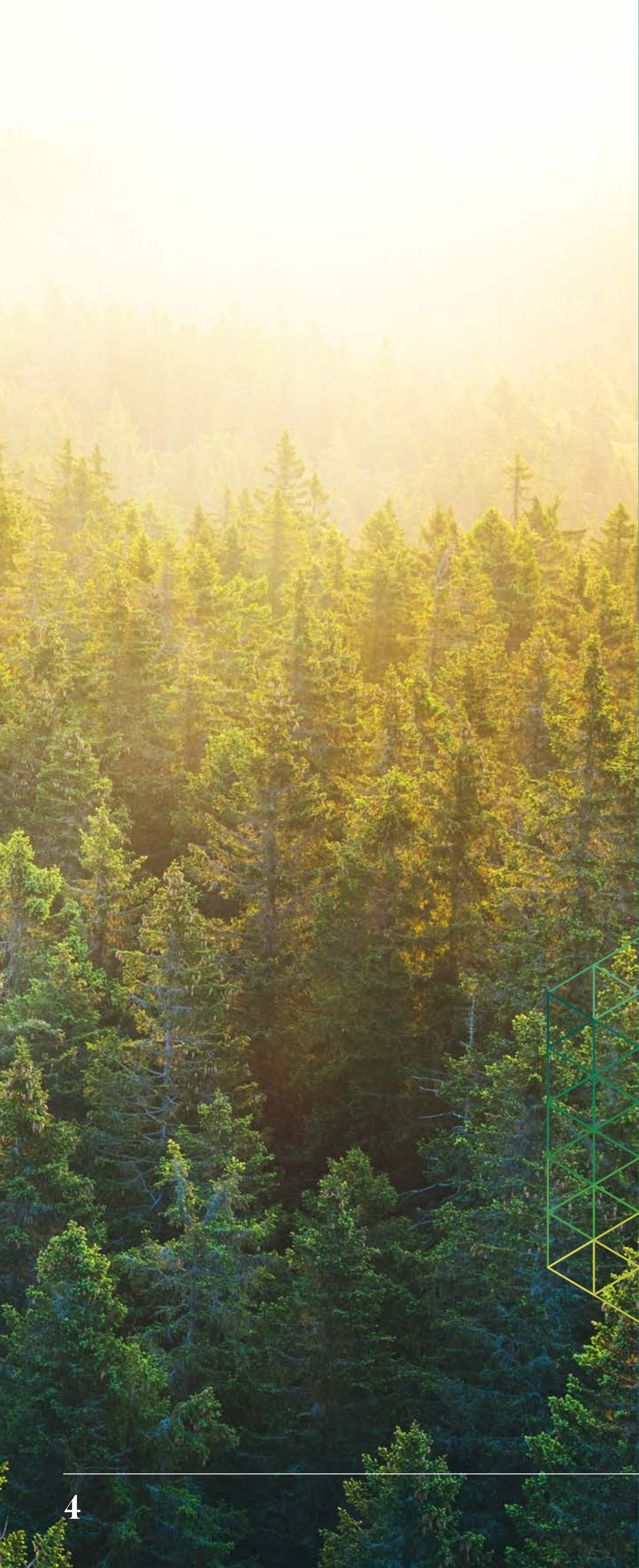
For more detailed information, please read the Terms & Conditions document, and if you need anything else, please get in touch with us on 020 7416 7780.

Key features of the service

- Minimum investment: £100,000 (no maximum).
- Top up at any time, subject to a minimum further investment of £10,000 (eligible for IHT relief two years from investment).
- Exposure to a portfolio of at least 20 AIM-quoted companies.
- Access your funds (subject to liquidity, 10 days' notice and Downing's discretion). See page 14 for details.
- Downside Protection Cover. See page 16 for details.

INVESTMENT WEEK TAX EFFICIENCY AWARDS 2018/19 WINNER Tax-Efficient Group of the Year

[1]Adult ISA subscriptions in the 2016/17 tax year, August 2017.



The risks of investing

Although it's normal for all equity investments to carry risk, it's important you know what they are so you can make an informed decision. Investments in the service are high risk. The key risks associated with the service are listed below.

Your capital is at risk

The value of your capital may go down as well as up and you may not get back the full amount invested.

You cannot rely on past performance

Please remember that past performance is not a guide to future performance and there is no guarantee that the service's objectives will be achieved.

Investments are long term and high risk

Investments must be held for at least two years and held at death to benefit from IHT relief. Portfolios will be invested in smaller companies quoted on the Alternative Investment Market (AIM), which may be significantly more volatile, carry higher risk and be materially less liquid than many other investments and in particular in comparison to larger companies traded on the main market of the London Stock Exchange.

Tax reliefs are not guaranteed

The IHT relief referred to in this guide is described in accordance with Downing's interpretation of current legislation, rules and practice, which are subject to: (i) change in the future; and (ii) personal circumstances. IHT relief will not be available if the investor has not held shares for at least two years at the date of death.

The insurance policy is not guaranteed

The insurance policy is a Downing group policy, paid for by Downing. It is renewable each year (subject to a minimum period of at least two years for each investor) and there is no guarantee that it will remain in place following the first or any subsequent renewal date, or that it will pay out if a claim is made because there are a number of exclusions. Please see the Terms & Conditions document for more details.

IHT-qualifying investments are not guaranteed

Although it is intended that the Service will be operated such that investors will qualify for IHT relief after holding the underlying shares for a period of two years, there is no guarantee that this will be achieved or maintained. The level of IHT relief could be restricted if any IHT Company becomes non-qualifying for Business Relief purposes. Loss of IHT Company status could occur if, for example, such a company changes its business activities or its corporate structure, or if that company is taken over by another company which does not qualify for business property relief, or if a company's shares become listed on a stock market so that they cease to be unquoted for tax purposes.

Your portfolio may be difficult to sell

AIM companies invested in may be illiquid and such shares tend to be harder to sell than those of large companies. This means that if you decide to make a withdrawal or transfer from your portfolio, you may not be able to sell the shares immediately and you may have to accept a price that is less than the real value of the companies.

An investment in the service will not be suitable for all investors

The service's objectives have been formulated on the basis that you have the potential to save 40% IHT on the value of your portfolio and that you are UK resident and UK domiciled. We always recommend that you seek specialist independent tax and financial advice before investing. Please note, we do not offer tax or investment advice.

Dealing costs

For smaller portfolios, dealing costs may be significant to the performance of your portfolio.

Our approach to investing

We employ a private equity style investment process across all of our public equity funds to help us manage risk and drive strong returns. We invest in businesses, not stocks.

The Service is managed by our experienced Public Equity team, headed by award-winning fund manager Judith MacKenzie[2]. We take the time to diligently research companies, including their competitive landscapes and management teams, to find the most attractive investment opportunities.

An integral part of the investment process is the Investment Committee, which draws on over 100 years of combined investment experience to provide oversight on new investments and portfolio management.

We believe that our rigorous process can enable us to unlock long-term value in investments.

After investment, we monitor your portfolio on a day-to-day basis. We will sell investments that we think are no longer beneficial to your portfolio (such as those that no longer qualify for IHT relief or that we perceive to have increased risk) or to make way for new opportunities that could provide you with extra spread.

In order to maintain the IHT relief, existing investments are generally only sold if there are suitable reinvestment opportunities.

[2]Named Small Cap Fund Manager of the Year, Small Cap Awards 2013 and 2015, for the Downing UK Micro-Cap Growth Fund.

Our investment strategy

Our experienced team will invest your funds into at least 20 AIM-quoted companies in a variety of sectors to help manage risk.

Your ISA will be invested into a portfolio of smaller AIM-quoted companies that we believe qualify for Business Relief (BR). This means that the value of your shares held in these companies will fall outside of your estate for the purposes of IHT (so long as the shares are held for a minimum of two years and at death, and the companies maintain their qualifying status). You can find out more about the IHT benefits of the service on page 12.

This is a discretionary managed portfolio, which means that you will be the beneficial owner of the equities. We expect each portfolio to be fully invested within three months of receipt of a completed and accepted application form and cleared funds, dependent on any ISA transfers being completed (please note, this cannot be guaranteed and it may take longer to invest all of your funds).

Funds allocated across at least

20

AIM-quoted companies in a range of sectors.

Selection criteria

Our Public Equity team will select companies to invest in based on in-depth analysis and research. The companies will be assessed on several criteria, including:

- The quality of the management team – including the ability to align management's interests with that of our investors.
- '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.
- The profitability of the company and cash flow yield.
- Its valuation in comparison to similar companies.
- The growth potential of the company and its sector.

Why smaller companies?

The AIM market was launched in 1995 as the London Stock Exchange's junior market. It provides access to capital for smaller, growing companies.

Companies listed on the AIM market have raised more than £100 billion of initial and ongoing funding to support their growth[3].

We focus on AIM-quoted companies that have a market capitalisation below £150 million. These are known as 'micro-cap' companies.

As at 31 March 2017, almost 1,000 companies with a combined value of approximately £87 billion were traded on AIM – 86% of which have market capitalisations of under £150 million[4]. This provides us with a wide range of potential investment opportunities.

Overall, smaller companies have outperformed their larger peers over the long term; between 1955 and 2016 the Numis Smaller Companies Index (ex Investment Companies) total return beat the FTSE All-Share Index by an average of 3.4% p.a.[5] Over the last fifteen years, smaller companies have outperformed larger companies in 90% of worldwide markets[6].

Market inefficiencies in the micro-cap sector – such as a lack of analyst coverage, low volumes, and prices that aren't transparent – can provide opportunities for diligent investors. We take advantage of these inefficiencies to find attractive companies to invest in.

[3]Source: London Stock Exchange, AIM Factsheet, November 2017, includes new and further fundraisings.
[4]Source: London Stock Exchange, List of All AIM Companies, 31 March 2017.
[5]Source: Numis Smaller Companies Index.
[6]Source: Numis Smaller Companies Index, Annual Review 2016, data from 2000-2015.

Over the last 15 years, smaller companies have outperformed

90%

of worldwide markets[6].

Transferring an existing ISA

Existing ISAs that do not qualify for IHT relief can be transferred to the Downing AIM ISA while maintaining all the ISA benefits.

The minimum initial subscription to the Service is £100,000. If you wish to invest in the Downing AIM ISA and don't meet this, your subscription can be split across the Downing AIM ISA (for both ISA and IHT tax reliefs) and the Downing AIM Estate Planning Service (for IHT relief only).

For example, if you wish to utilise this year's annual ISA allowance (£20,000) to set up your Downing AIM ISA, a subscription of £80,000 will be required in the Downing AIM Estate Planning Service. These investments should qualify for IHT relief after two years. 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.

Please note that it can take up to six weeks to transfer your existing ISA to us. For IHT relief the two-year qualifying period will only start when your funds are invested in the underlying AIM companies. Until we invest your funds, you won't be exposed to the market, so any rises or falls during this period will not affect your investment.

You should note that other ISA providers may charge penalties or fees for transferring money. Please check before you transfer.

IHT relief in only two years

As well as the ISA tax reliefs, the Service allows you to benefit from IHT relief on your subscription after only two years (so long as shares are held at death).

Currently, taxable estates worth more than £325,000 (the 'nil rate band') are subject to 40% IHT. Between April 2017 and April 2021, the government is bringing in an additional allowance which applies to the family home and is called the Residence Nil Rate Band.

This allowance starts at £100,000 per person and will increase over four years to £175,000 per person. Therefore by 2020/21, the total value of an estate that may be left to direct descendents free of IHT will be £500,000 per person (or £1 million for a married couple or those in a civil partnership) subject to conditions.

£325k
Current IHT nil rate band per person

£500k
IHT nil rate band per person 2020/2021*

Business Relief (BR)

The Service invests in unquoted businesses that undertake qualifying trades under Business Relief legislation. This means that the value of your shares held through the Service should effectively be disregarded for IHT purposes, so long as shares have been held for at least two years at death.

The two-year holding period begins on the date that you purchase your shares. If you have inherited shares qualifying for BR from a spouse or civil partner, then your spouse's or civil partner's period of ownership can be added to yours in calculating the two-year holding period.

Under current legislation, if you choose to sell shares from a BR-qualifying company, you can reinvest the proceeds into another BR-qualifying company, not losing the 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 at least two out of the last five years in total.

*Includes both nil rate band and residence nil rate band.

To help you understand the IHT benefits of investing in our Service, here is a worked example:

	Investments through the Service	Listed investments
Your net investment	£100,000	£100,000
Value after five years at a 4% p.a. growth rate	£121,665	£121,665
IHT at 40%	Nil	(£48,666)
Net value after IHT	£121,665	£72,999

In the above example, both investments are assumed to grow at a compound rate of 4% p.a. (ignoring any distributions) over five years, the IHT nil rate band is fully utilised against other assets and all other charges, costs, taxes and tax reliefs have been ignored.

We'd like to remind you that this example is set out to illustrate the application of IHT relief and is not a forecast of the likely performance of the Service. The target return is not guaranteed and investors may get back less than the amount invested. Please remember that an investment made through the Service is considered higher risk than listed investments – find out more about the key risks on pages 4 and 5. In addition, the summary of IHT reliefs on this page is based on current UK tax law and is intended as a guide only. We always recommend that you consult your financial adviser concerning the possible tax consequences of investing through the Service.

We've been raising money on behalf of businesses for over

30 years.

Access your funds

You can access your funds (subject to liquidity and 10 business days' notice). There are no charges or penalties if you choose to exit.

On receipt of a request for a withdrawal, we will endeavour to provide your funds within 10 working days, although requests to withdraw £30,000 or more may take longer to accommodate.

Please bear in mind that your portfolio will be invested in companies that may have limited liquidity and so it may be difficult to accommodate large orders for sales or purchases of underlying investments.

As of 1 July 2016, you can 'replace' the value of any funds you withdraw from your ISA in any given tax year, so long as the amount you pay back in does not exceed the amount of your available ISA subscription and the amount withdrawn. There is no restriction on how often you replace your funds, however, there is a minimum replacement value of £250. Please note that replacements may be subject to an administration charge.

We would like to take the opportunity to remind you that withdrawals from the Service will not benefit from IHT relief.

Downside Protection Cover

Downside Protection Cover is designed to reduce the impact of loss to you during a minimum of the first two years before your investment qualifies for IHT relief. In the event of death under the age of 90, it covers a loss in value of up to 20% on your net initial investment.

We have arranged a group insurance policy through a Lloyd's of London underwriter. This policy covers investors on death under the age of 90 years, with no medical questionnaires or exclusions for pre-existing conditions, at no extra cost.

At a glance

	Downside Protection Cover
Term	Minimum of two years
Cover	Loss in value of up to 20% of net initial investment on death
Maximum pay-out	£100,000 (approximate investment of £500,000)
Maxmimum age	Under 90 years at death
Medical exclusions/conditions	None
Premium included within the annual management charge	2% plus VAT of net assets payable quarterly in arrears

Important

The proceeds of the insurance policy is payable by Downing (as trustee) to such of your family or beneficiaries as Downing selects, taking into account the persons nominated in the Application Form. This should ensure that any proceeds from the insurance policy fall outside of your estate and so should not be subject to IHT. For tax implications, please refer to the Terms & Conditions.

A few things to remember

- This is a group policy paid for by Downing that has a minimum term of two years. Thereafter, it is renewable each year and we cannot guarantee that it will remain in place after the first two years.
- This insurance policy covers a loss in value of up to 20% of your net initial investment (after all initial charges) on death.
- The maximum benefit is £100,000 per investor (equivalent to an approximate investment of £500,000) across all our estate planning products that benefit from Downside Protection Cover.

Upon the death of an investor

We understand that this is an extremely difficult time, so we want to do everything we can to make the next steps as straightforward as possible.

Those handling your estate after death have three options:

- Ask us to sell your portfolio and pass on the proceeds to your beneficiaries.
- Continue to hold your portfolio for your beneficiaries to benefit from potential growth, although the investments will now fall outside of the ISA wrapper so any income and capital gains will be taxable.
- Use the portfolio to pay any IHT liability on your other assets, such as your home. We can liquidate some or all of the portfolio and then pass the money directly to HMRC before the grant of probate. As long as the two-year holding period has been met, the Downing AIM ISA should be up to 100% free from IHT.

Meet our team

DISA is managed by our experienced Public Equity team. Downing Public Equity was founded in 2011 and has since grown to manage some £250 million of publicly-listed assets.*

Judith MacKenzie,
Partner & Head of Public Equity

Judith is head of our Public Equity team. She joined Downing in October 2009. Previously she was a partner at Acuity Capital managing AIM-quoted VCT and IHT investments and a small-cap activist fund. Prior to Acuity, Judith spent seven years as a senior investment manager with Aberdeen Asset Management Growth Capital as co-Fund Manager of the five Aberdeen VCTs, focusing on technology and media investments in both the public and private arenas. Judith is a Certified Fellow of the Securities Institute and has held a number of public and private directorships.

*As at 28 February 2018.

James Lynch, Fund Manager

Prior to joining Downing in 2012, James worked within the asset management division of Ernst & Young after specialising in smaller companies at HW Fisher & Company. James is a CFA Charterholder, Chartered Accountant (ACA) and holds the IMC. James is manager of the Downing Monthly Income fund.

Alyx Wood, **Fund Manager**

Alyx joined Downing in 2014 from Deutsche Bank AG, where he was as a Business and Fund Finance Manager. Prior to that, he worked at KPMG LLP in investment management advisory. Alyx is a Chartered Accountant (ICAS) and holds the IMC.

Nick Hawthorn, Fund Manager

Nick joined Downing in 2015 from BP Investment Management where he spent a year in the private equity team. Prior to that, he worked in group finance for Aberdeen Asset Management. Nick is a CFA Level 3 candidate and holds the IMC.

Our Investment Committee

- Chris Allner: Chris has 30 years' venture capital and private equity experience, and has sat on the boards of a number of unquoted and quoted portfolio companies across a variety of commercial sectors.
- Colin Corbally: Colin qualified as a solicitor with Linklaters in 1996, then worked at 3i Group as a senior manager in corporate finance and venture capital. Prior to joining Downing in 2006, Colin spent four years as a director at The Royal Bank of Scotland, structuring debt and equity investments.
- Nicholas Lewis: Nicholas founded Downing LLP in 1986, which now has some £1.7 billion funds from more than 35,000 investors. Prior to Downing, Nicholas was with NatWest Ventures Limited and before that with Apax Partners and Co. Limited.
- Donald Robertson: Donald is an independent adviser to our Public Equity team. As the former co-founder of SVM Asset Management, Donald has over 20 years' smaller company quoted investment experience.

Our charges

We are always open and transparent about our charges. We make sure all the information is provided upfront so you can be confident there will be no hidden surprises.

	If you are investing through an adviser	If you are investing on an execution-only basis
Downing's initial charge	2% (payable from your portfolio)	4% (2% of which will usually be paid to your intermediary unless otherwise indicated on your application form)
Downing's annual charge (excluding VAT)	2% p.a. (of the value of each portfolio, payable quarterly in advance)	2.5% p.a. (0.5% of which will usually be paid to your intermediary for four years)
	Out of our annual fee, we will be responsible for all the usual running costs of the Downing AIM Estate Planning Service, the insurance premiums, and any custodian and nominee fees.	
Probate valuations (excluding VAT)		
Valuations up to six listed securities	£250	
Valuations of seven or more listed securities	£200 and £10 per security held	

Initial and ongoing adviser charges can be facilitated through the service (see the application form for more details). Alternatively, you can choose to pay this fee personally.

Good to know

We do not charge any dealing fees, however third-party transactional fees will apply.

We do not charge any administrative, service, exit or performance-related fees.

Next steps

Before applying, please read the Terms & Conditions document (including the risk factors) and get in touch with your financial adviser to discuss the appropriateness of the Service for you.

When you are ready to invest:

Complete and follow the instructions within the Application Form (Single, Joint & Trustee Application Forms are available).

If you would like any more information, please call us on **020 7416 7780** and we will be happy to help (please note that we cannot provide investment or tax advice).

After you submit your application we will send you:

- An acknowledgement (within two days).
- Quarterly valuation statements (once your funds have been invested).
- Half-yearly reports containing details of all the investments in your portfolio and an investment commentary (once your funds have been invested).

Further information is also available on our website at www.downing.co.uk.

Downing

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