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 and personal circumstances.

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 17 February 2020

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 2017/18, just under £70 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 (DAISA) is a stocks and shares ISA and has been designed to allow you to qualify for IHT relief after only two years (so long as shares are held at death, as well as benefitting from the ISA tax concessions. 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 legislation.

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

The minimum initial investment in DAISA is currently only £20,000, there is no maximum and you can top up your portfolio at any time (subject to ISA investment limits). You can invest cash (up to your unused ISA limit) or transfer existing ISA balances into the Service.

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. We will also give you important information about the charges and key risks.

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: £20,000 (until 31 May 2020, 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 25 AIM-quoted companies.
- Access your funds with ten days' notice (subject to liquidity and at 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 2017/18 tax year, April 2019.

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 through DAISA 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 to remain in place

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.

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 a 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 Downing Fund Managers 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 enables us to unlock long-term value.

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.

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.

Building a diverse porfolio

DAISA aims to manage risk by spreading your funds across at least 25 AIM-quoted companies in a variety of sectors.

This is a discretionary managed portfolio, which means that you will be the beneficial owner of the equities. We anticipate 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. However, please note, this cannot be guaranteed and it may take longer to invest all of your funds.

Selection criteria

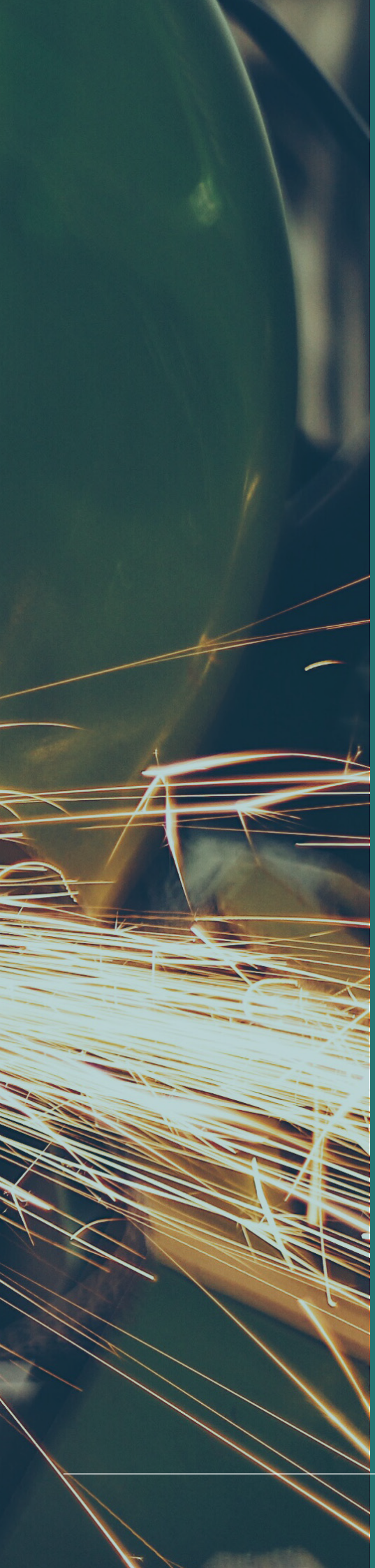
Our Downing Fund Managers team selects companies based on several criteria, including:

- 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.

Funds allocated across at least

25

AIM-quoted companies in a range of sectors.



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 30 September 2019, almost 900 companies with a combined value of approximately £96 billion were traded on AIM – 81% of which have market capitalisations of under £150 million[3]. This provides us with a wide range of potential investment opportunities.

Overall, smaller companies have outperformed their larger peers over the long term. Since inception, the Numis Smaller Companies Index (ex-Investment Companies) (NSCI) total return has significantly outperformed indices weighted in larger companies. It is also true that, over the long term, the smaller companies in the NSCI have outperformed the larger ones[4].

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 Statistics, October 2019,
[4]Source: Numis Smaller Companies Index, Annual Review 2019.

Transferring an existing ISA

If you hold existing ISAs that do not qualify for IHT relief, these can be transferred to the Downing AIM ISA while keeping all the ISA benefits.

The minimum initial subscription to the Service is currently only £20,000. This means you can use this year's annual ISA allowance to set up your Downing AIM ISA.

You can also transfer any existing ISAs you hold, however it can take up to six weeks for transfers to take place. You should also note that other ISA providers may charge penalties or fees for transferring money. Please check before you transfer.

For IHT relief, the two-year qualifying period will only start once 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.

Each year you may subscribe up to the maximum ISA limit or transfer that amount from a holding in the Downing AIM Estate Planning Service to the Downing AIM ISA. The minimum top-up is £10,000.

IHT relief

The Service offers investors the opportunity to obtain inheritance tax (IHT) relief after only two years.

At present, taxable estates worth more than £325,000 (the 'nil-rate band') are subject to 40% inheritance tax (IHT).

Between April 2017 and April 2021, the government is phasing in an additional allowance that applies to the family home and is called the 'residence nil-rate band'.

This allowance started at £100,000 per person and increased to £175,000 per person over four years. For the 2020/21 tax year, the residence nil-rate band is £175,000.

For the 2020/21 tax year, the total value of an estate, including the family property, that may be left to direct descendants free of IHT is £500,000 per person (£1 million for married couples or those in a civil partnership), subject to conditions.

Any unused part of the residence nil-rate band (which applies to a single residence) is transferable between spouses and civil partners; the unused percentage from the estate on the first death can be claimed on the second death.

£325k
2020/21 IHT nil-rate band per person

£500k
2020/21 IHT nil-rate band plus residence nil-rate band

Business Relief (BR)

The Service invests in AIM quoted 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 that qualify for BR from a spouse or civil partner, then your spouse's or civil partner's period of ownership can be added to yours to calculate the two-year holding period.

Under current legislation, if you 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 a total of at least two out of the last five years.

Here's an example that shows the IHT benefits of investing in the Service.

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

Assumptions: both investments are assumed to grow at a compound rate of 4% p.a. (after charges and 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.

This example aims 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. Please remember that investments in the Service are considered higher risk than listed investments. Please read the key risks on pages 4 and 5.

The summary of IHT reliefs in this section is based on current UK tax law and is intended as a guide only. We recommend that you consult your financial adviser to discuss the possible tax consequences of investing through the Service.

We've been investing in businesses for over

30 years.

Opportunities to access your funds

You can access your funds providing you give us ten days' notice. This is subject to liquidity and is at Downing's discretion. There are no charges or penalties if you choose to exit.

If you request a withdrawal, we will endeavour to sell your holdings and provide funds to you within ten business 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 within short timescales.

Since 1 July 2016, you can 'replace' the value of any funds you withdraw from your ISA in any given tax year, as 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.

Any withdrawals from your portfolio will not benefit from IHT relief, unless another exemption is used.

Downside Protection Cover

Downside Protection Cover is designed to reduce the impact of loss to you during a minimum of the first two years of your investment. 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 with an A-rated insurer. The rating is provided by AM Best, which is a global credit rating agency with a unique focus on the insurance industry. This policy is provided at no extra cost and covers investors on death under the age of 90 years, with no medical questionnaires or exclusions for pre-existing conditions.

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 (i.e. coverage for a maximum investment of £500,000)
Maxmimum age	Under 90 years at death
Medical exclusions/conditions	None
Cost	Included in the annual management charge (see page 20)

Joint applications are treated separately for insurance purposes. Each individual can invest up to approximately £500,000 and benefit from Downside Protection Cover.

All fees and charges are exclusive of VAT unless otherwise stated. VAT will be added where applicable.

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.

Important

The proceeds of the insurance policy is payable by Downing (as trustee) to members 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.

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

Downing AIM Estate Planning Service is managed by our experienced Downing Fund Managers team. The team, originally called Downing Public Equity was founded in 2011. They manage £162 million of publicly-listed assets.*

Judith MacKenzie,
Partner & Head of Downing Fund Managers

Judith is head of our Downing Fund Managers 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.

*As at 31 March 2020.

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.

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.

Josh McCathie, Analyst

Josh joined Downing in October 2018 as an analyst for the MI Downing Monthly Income fund and AIM IHT products. Prior to joining Downing, he worked at BRI Wealth Management with a focus on UK equities. Josh is a CFA Charterholder, CISI Level 7 Chartered Wealth Manager (MSCI), holds the Investment Management Certificate and was included in the Citywire Top 30 under 30 class of 2018.

Donald Roberston, Independent Adviser

Donald is an independent adviser to our Downing Fund Managers 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. For further details, please see page 8 of the terms and conditions.

	If you are investing through an adviser	If you are investing on an execution-only basis
Initial charge	0% (until 31 May 2020)	2% (until 31 May 2020, this will usually be paid to your intermediary unless otherwise indicated on your application form)
Annual management charge	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 ISA, 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.

All fees and charges are exclusive of VAT unless otherwise stated. VAT will be added where applicable.

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.

What to do now

Before applying, please read the terms & conditions document, paying particular attention to the risks. After that, please talk to your financial adviser to discuss if the Service is appropriate for you.

When you are ready to invest:

Complete the appropriate application form (single & trustee application forms are available) and send it to us with the required forms of identification.

If you would like any more information, please call us on **020 7416 7780** and we will be happy to help.

Please note, we can't provide investment or tax advice.

After you submit your application we will send you:

- An acknowledgement (within two business days) that we have received and accepted your application.
- 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.

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

Downing

17 April 2020

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