



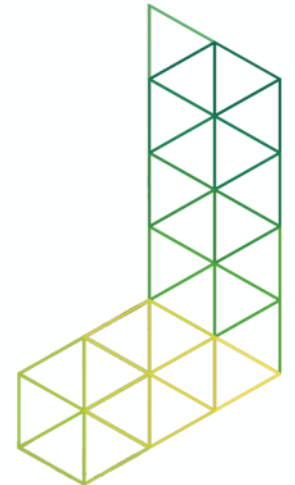
Downing Fund Managers

For investment professionals only

February 2020

Team Introduction

Kevin Addison – Head of Distribution



Downing Fund Managers Overview



Downing LLP: Founded 1986, over £1bn AUM¹ across venture capital, private equity & public equity

Downing Fund Managers: Founded 2010, over £205m AUM² across Smaller Companies strategies



Fund Manager & Team



James Lynch – Fund Manager

- Joined Downing in 2012. >10 years smaller company experience.
- CFA Charterholder & Chartered Accountant (ACA). Previously at Ernst & Young and HW Fisher & Company.



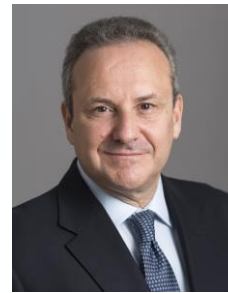
Judith MacKenzie – Partner & Head of Downing Fund Managers

- Joined Downing in 2009. Previously at Acuity Capital & Aberdeen Asset Management.
- Over 20 years' small-cap experience.



Nick Hawthorn – Fund Manager

- Joined Downing in 2015. Previously at BP Investment Management & Aberdeen Asset Management.
- Holds an M.Sc. in Finance & Investment, MA in Accounting & Economics & holds the IMC.



Darrell O'Dea – Investment Committee Member

- 20 years' industry experience as a European Equity Fund Manager.
- Managed long only & long/short equity mandates at Threadneedle & Gartmore.



Joshua McCathie - Analyst

- Joined Downing in 2018. Previously at BRI Wealth Management in the UK Equities team.
- CFA Charterholder, CISI Level 7 Chartered Wealth Manager & holds the IMC.



Donald Robertson – Investment Committee Member

- Over 30 years' industry experience as a Finance Director and Investment Manager.
- Co Founder, Finance Director & Investment Manager at SVM Asset Management Limited.

Downing Monthly Income

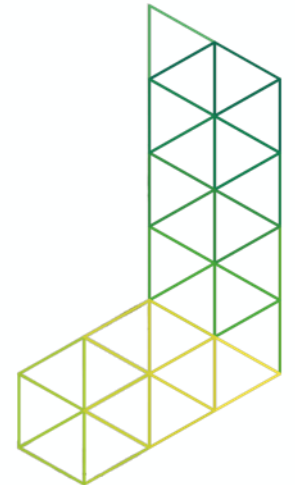
A differentiated approach to income
& smaller companies

For investment professionals only

February 2020



Downing Monthly Income Headlines

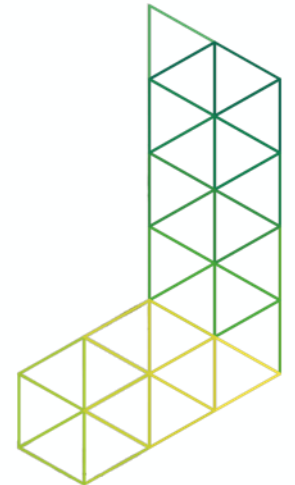


Structure

Overview	
Fund size	£47.9 million (as at 31 January 2020)
No. of companies	c. 50
Distributions	Monthly
Current yield	4.71% (as at 31 January 2020)
Target income	Inflation protected income at a premium yield to the sector & market (this has not been lower than 4%)
Structure	OEIC under UCITS
Annual management charge	0.75%
Total Expense Ratio	1% p.a. (capped)*

*Other charges apply. Please see the Prospectus for full details of the Offer and charges.

An income solution using smaller companies



Current Risks to Income Investors

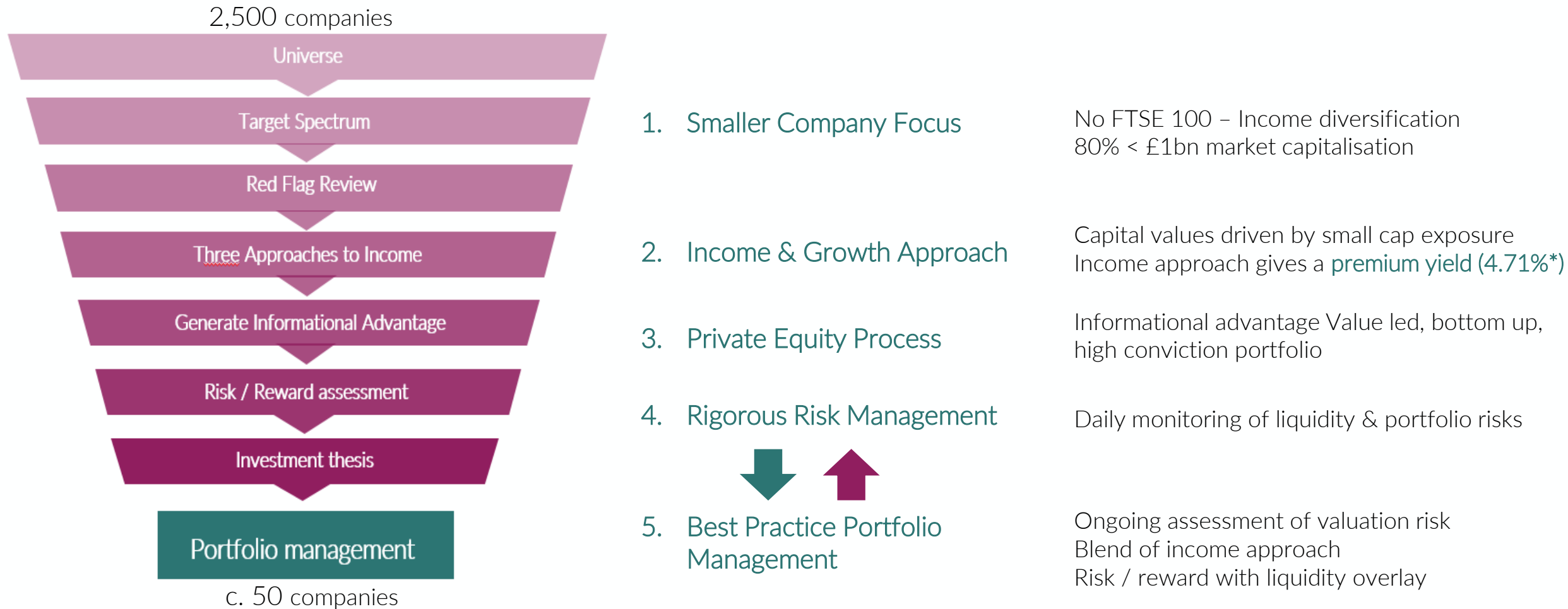
UK fundamentals slowing but still robust

- ▶ High levels of concentration risk in large UK Equity Income Funds
- ▶ Low interest rates & bond yields
- ▶ Corporate earnings being revised downwards
- ▶ Pockets of increasingly high equity valuations
- ▶ Increasing geopolitical and economic concerns



A differentiated approach to income & smaller companies

Five principle differentiators



2,500 companies

Universe

Target Spectrum

Red Flag Review

Three Approaches to Income

Generate Informational Advantage

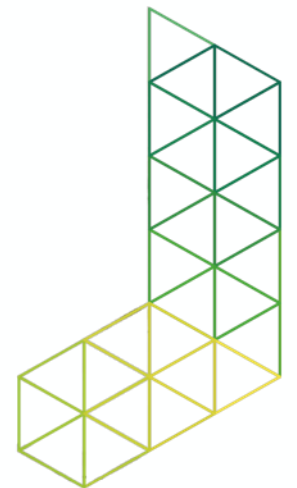
Risk / Reward assessment

Investment thesis

Portfolio management

c. 50 companies

Portfolio



Portfolio Characteristics

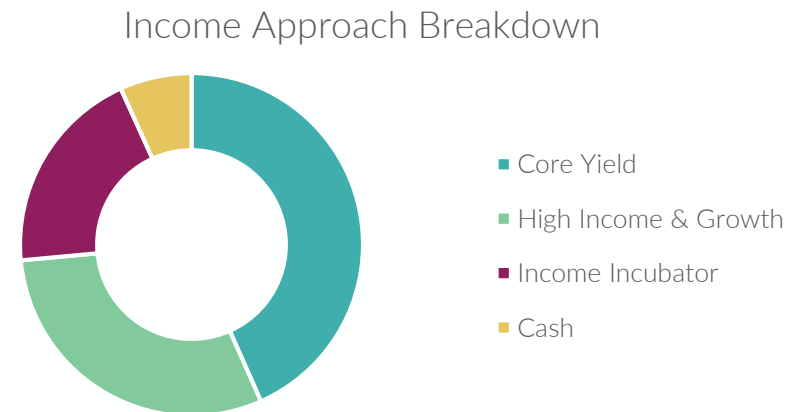
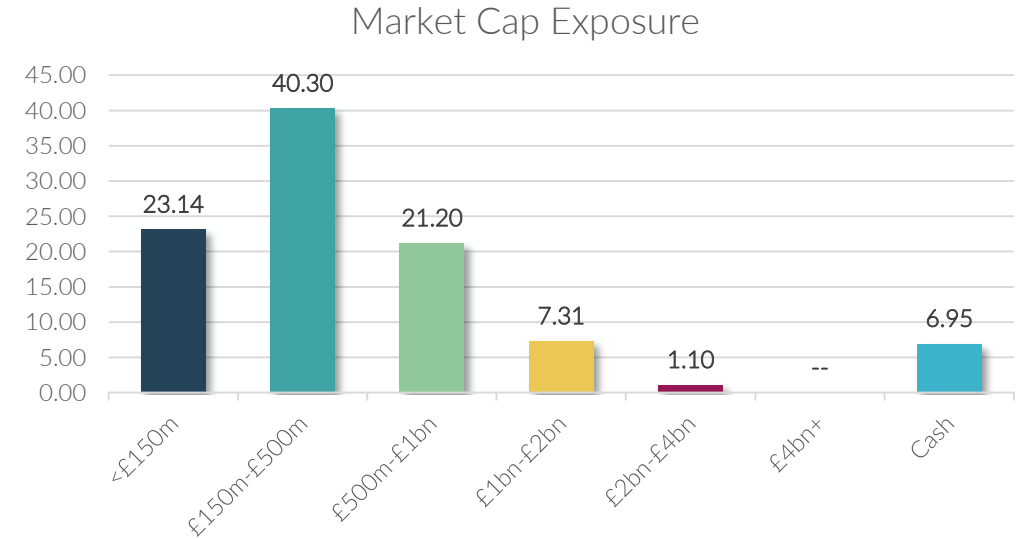
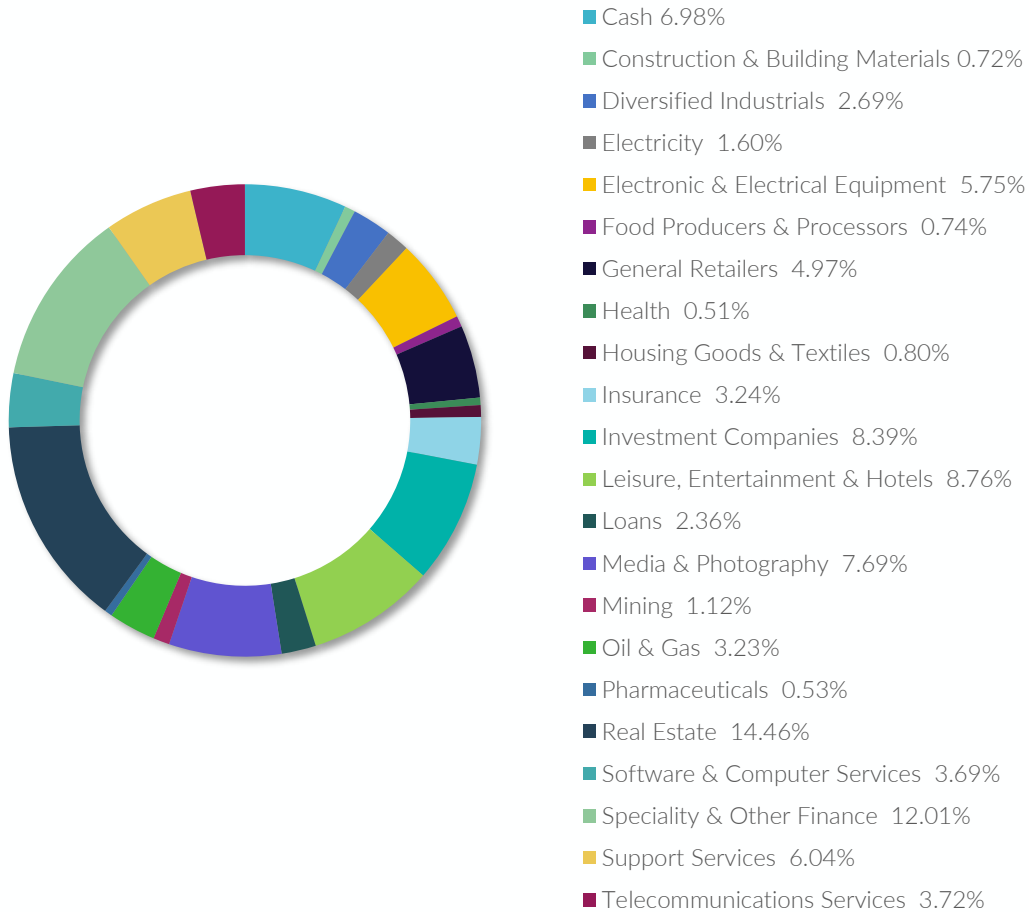
Metric	Downing Monthly Income	Numis Smaller Companies 1000 + Junior Market (ex ITs)	UK Large Cap Market
Forward P / E Ratio	10.2x*	17.8x	16.2x
EV / EBITDA	5.7x*	13.3x	9.0x
Forward Dividend Yield (%)	4.4%	2.0%	4.2%
3 Year Earnings CAGR (%)	14.1%	9.5%	5.2%
Net Debt / EBITDA	0.8x	1.0x	1.3x
Net Debt / Equity	0.3x	0.3x	0.8x
ROE (%)	19.6%	-2.7%	23.4%

Top 10 Holdings

Name	% of fund	Description
Watkin Jones Ltd	4.5%	Developer of forward sold purpose-built student accommodation & build to rent
PPHE Hotel Group Ltd	4.1%	Develops, owns, manages & franchises hotels & resort properties globally
Lok'nStore Group Plc	4.1%	Self storage developer & operator
Ramsdens Holdings Plc	4.2%	Diversified financial services provider & retailer offering FX, pawnbroking etc
DiscoverIE Group Plc	3.6%	Designs, manufactures and distributes specific electronic components
Morses Club Plc	3.6%	Consumer finance provider through traditional & online marketing channels
Circle Property Plc	3.5%	Acquires, refurbishes and leases provincial office properties
Duke Royalty Ltd	3.4%	Alternative finance provider of royalty finance to European SME's
Photo-Me International	3.4%	International operator of photo processing services, laundry & vending machines
Chesnara Plc	3.2%	Life and Pensions Consolidator in the UK and Europe

Sector and market cap exposures

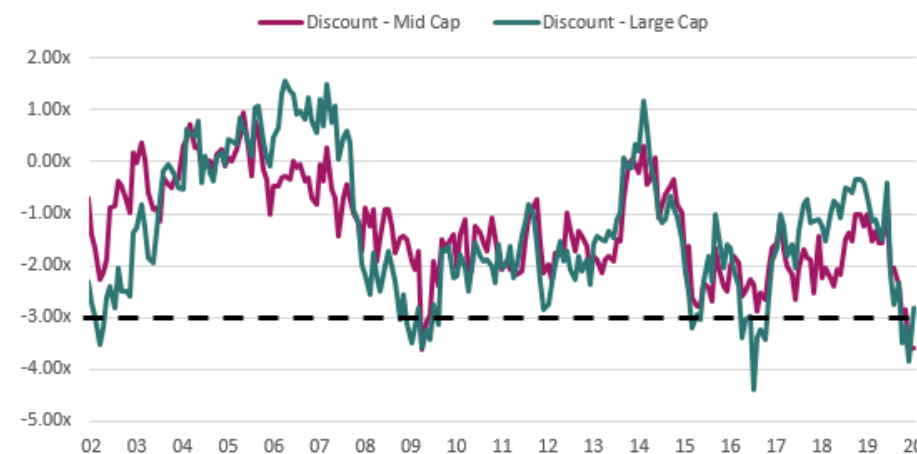
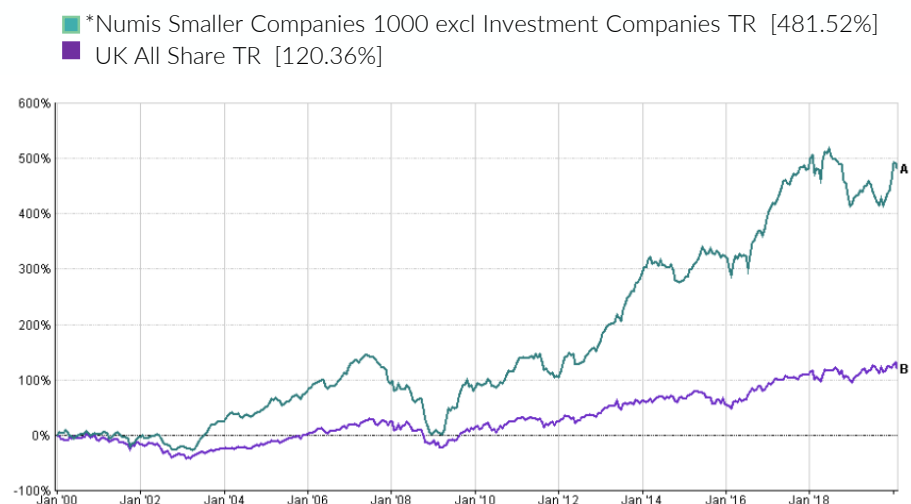
MI Downing Monthly Income Fund



1. Smaller Company Focus

Longer term performance vs short term valuation presents an opportunity.

- ▶ Smaller companies have outperformed the market by **361.16%***.
- ▶ The risk-adjusted return for smaller companies is **4x higher** than the market*
- ▶ UK smaller companies have only traded at a **-3.0x** discount to larger companies on 4 occasions over the last **15+** years.
- ▶ On these occasions the following 12 month & 3 year relative outperformance of smaller companies averaged **18.61%** & **42.95%** respectively.



2. Income & Growth Approach

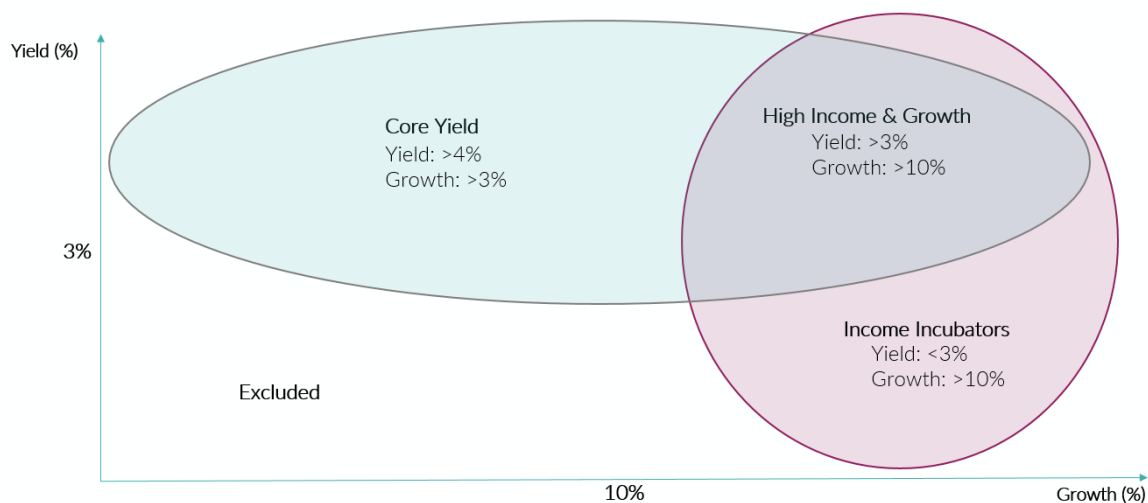
Drawing yield from different market opportunities

Target universe screened to identify three focus groups:

Core Yield: Dividend yield >4%, growth >3%

High Income & Growth: Dividend yield >3%, growth >10%

Income Incubator: Dividend yield <3%, growth >10%



Red Flag Review

Target universe put through Red Flag Review in order to identify the best quality companies that demonstrate the desired characteristics.

Financial based stress tests are critical, as history tells us that strong balance sheets have performed **45%*** better than weak balance sheets.

Market structure	Volatile earnings	
	Low margins	
	Low pricing power	
	Unsupportive end markets	
Stress Tests	Accounting & free cash flow quality	
	Dividend affordability	
	Financial risk test	
	Signs of financial stress	
Alignment of interests	Off balance sheet finance	
	Management ownership and incentives	
	Excessive board pay	
Corp gov.	Related party transactions	
	Chair and CEO separate roles	
	Sub-com's 100% independent	
	Accounts / accounting policies	

Income Incubator – Lok’nStore Group

Self-storage developer & operator focusing on the undersupplied UK market with an established pipeline of 14 stores adding 782,000 of sq ft of lettable space, adding over 40% to the current base.

Managing mix within portfolio to optimize earnings profile.

Owned – 23 stores

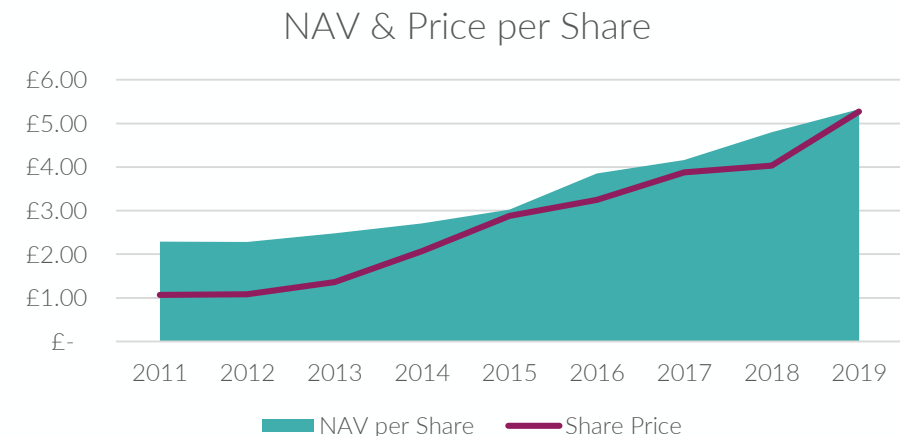
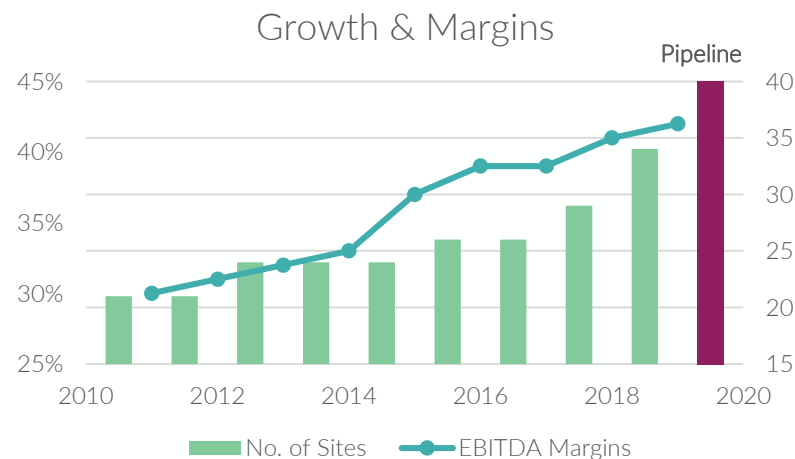
Managed – 11 stores

Development Pipeline – 15 projects



Seeking opportunities with a supply/demand imbalance for self storage in prominent locations.

Additional NAV accretion driven by stringent occupancy & pricing model.



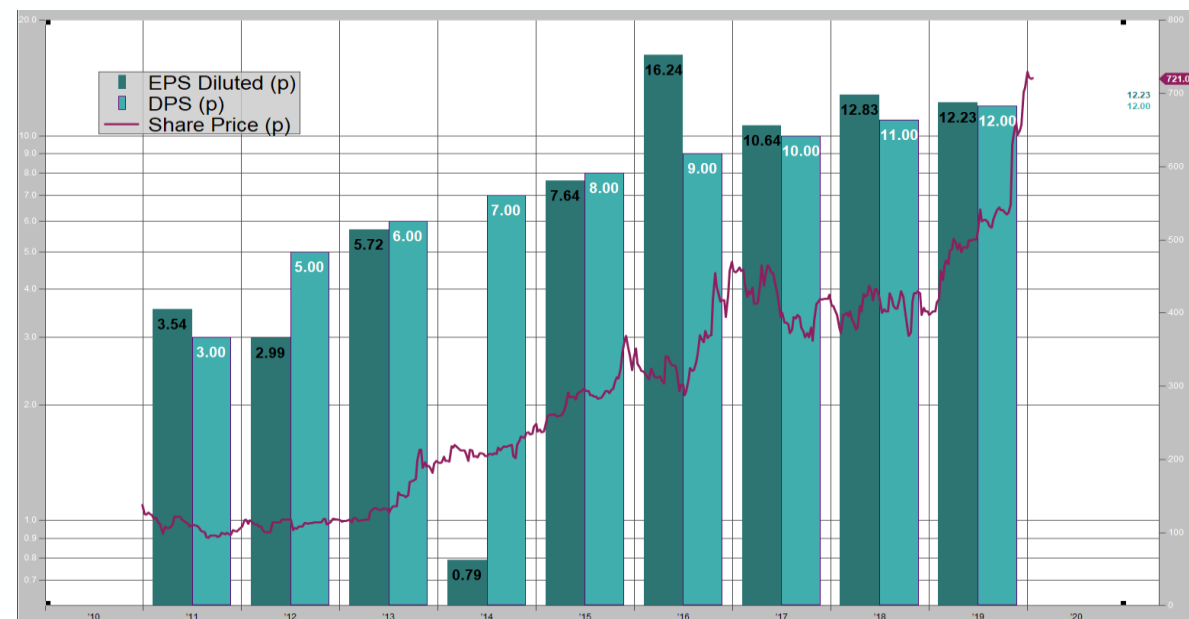
Income Incubator – Lok’nStore Group

Investment Case

- ▶ Asset backed: NAV/share of £5.33* gives **reduced downside risk**.
- ▶ PLC over REIT structure allows sites to be disposed at compelling yields alongside recurring revenue with management contracts.

Holding Rationale

- ▶ The discount to other listed peers has narrowed. Yet still trades at a **double digit discount to other listed peers**.
- ▶ Capacity to deliver continued growth in earnings and dividends. **Driven by our view of NAV to double over the medium term.**



	2011	2019	CAGR %	Total growth %
Mkt Cap.	£27.2m	£214.0m**	29%	688%
EPS	4p	12.3p	15%	208%
DPS	3p	12p	19%	300%
Yield on cost %	2.8%	11.3%		

High Income & Growth – Ramsdens Holdings

Diversified financial services & retailer offering foreign currency exchange, pawnbroking, jewelry retail, purchases of precious metals & other services.

Increased regulation & dwindling competition creating growth opportunities.

Drive growth in core estate

Expand core estate

Grow online presence

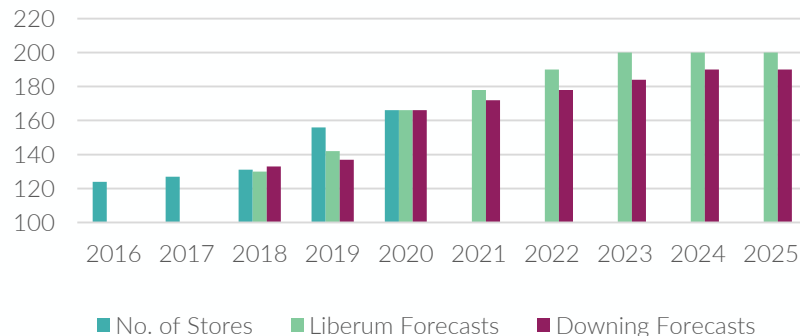
Capitalize on consolidation opportunities



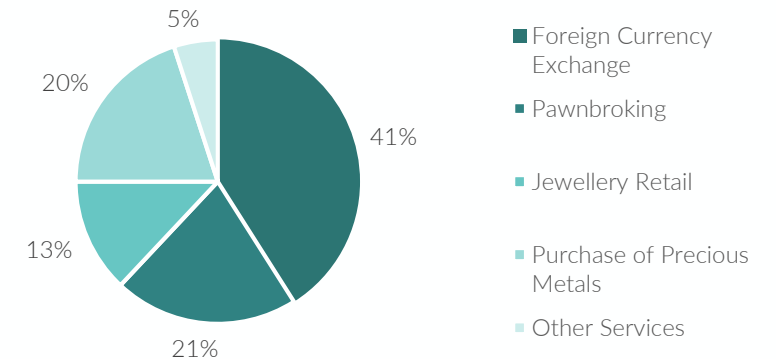
Diversified mix of service & retail resulting in **c40%** of earnings geared towards an element of counter cyclicity.

Gold inventories are a source of defensive earnings enhancement.

Historic & Forecasted Store Roll Out



Gross Profit Mix



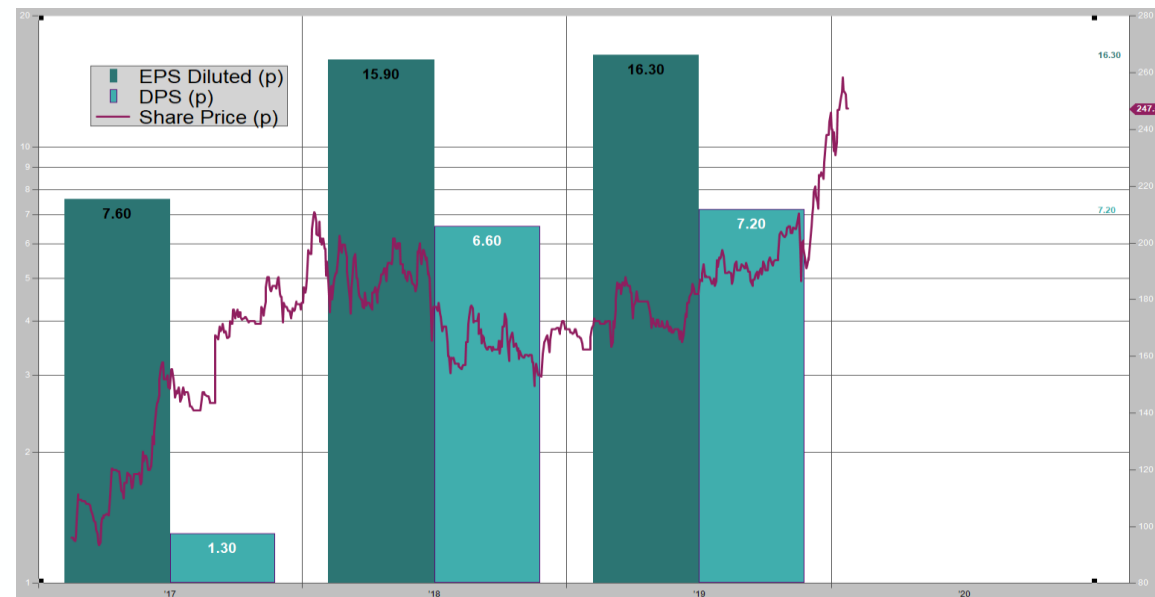
High Income & Growth – Ramsdens Holdings

Investment Case

- ▶ We estimate that Ramsdens will continue to open new stores to reach 200 stores by FY22. **Benefitting from increased operational leverage.**
- ▶ Diversified & defensive business mix. **Supported dividend growth throughout the market cycle.**

Holding Rationale

- ▶ Increased regulatory burden is resulting in asset acquisitions at compelling valuations. **Natural acquirer with a net cash balance sheet.**
- ▶ Trading on a **forward P/E of 10x**** is a substantial discount to other businesses with **defensive characteristics.**



	2017	2020	CAGR %	Total growth %
Mkt Cap.	£32.1m	£74.0m*	52%	131%
EPS	7.6p	22.6p**	44%	197%
DPS	1.3p	8.1p**	84%	523%
Yield on cost %	1.0%	8.3%		

3. Private Equity Process

Less coverage of companies

Market cap	No. of companies	Average no. of analysts per company	Median yield	Median forward price earnings (PE) ratio
£1m - £50m	623	0.5	3.1%	10.7x
£50m - £100m	153	1.5	2.1%	12.8x
£100m - £150m	86	2.1	2.3%	12.4x
£150m - £500m	217	3.8	2.6%	14.1x
Over £500m	157	7.4	2.5%	15.3x

More opportunity: 10X number of companies

More value: Smaller companies can be bought at more attractive valuations than their peers

More inefficiency: Low and often no analyst coverage

3. Private Equity Process

Our private equity background is a key differentiator

We can generate a better understanding of our portfolio companies than is appreciated by the market in a number of ways:

- ▶ Management meetings
- ▶ Site visits
- ▶ Large customers & suppliers
- ▶ Competitors
- ▶ Consultants
- ▶ Company retirees
- ▶ Industry commentators
- ▶ Trade associations
- ▶ Trade journals
- ▶ Market research



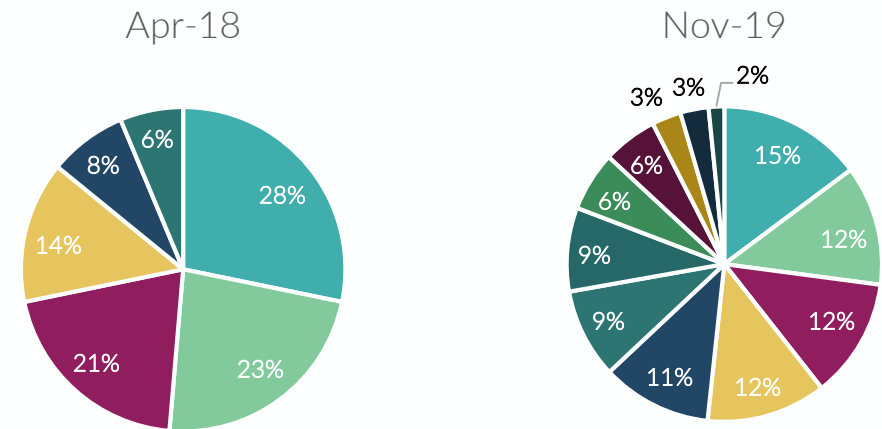
3. Private Equity Process – Duke Royalty

Alternative finance provider of royalty finance to European SME's & runs a portfolio of royalty agreements across a diversified range of industries.

The investment story

- ▶ Long-term contractual cash flows give revenue visibility.
- ▶ Provides a solution to SME's that wish to avoid private equity funding & loss of ownership.
- ▶ Removes refinancing risk & at a lower cost than bank debt.
- ▶ Increased scale & diversification reduces risk but also generates operating leverage on a fixed cost base & minimal capex requirements.
- ▶ Initial yields of 13%+ & lower interest expense with scale create financial leverage on deployed capital.
- ▶ Compounding of underlying revenue participation drives compelling IRRs.

Royalty Portfolio Breakdown



Potential Payback at 13% Yield & 5% Effective Tax

		Annual Revenue Growth			
		-3%	0%	3%	6%
Term (Yrs)	20	3.0	2.5	3.1	3.9
	25	3.4	3.1	4.1	5.7
	30	3.7	3.7	5.4	8.2
	35	3.9	4.3	6.9	11.6
	40	4.2	4.9	8.5	16.1

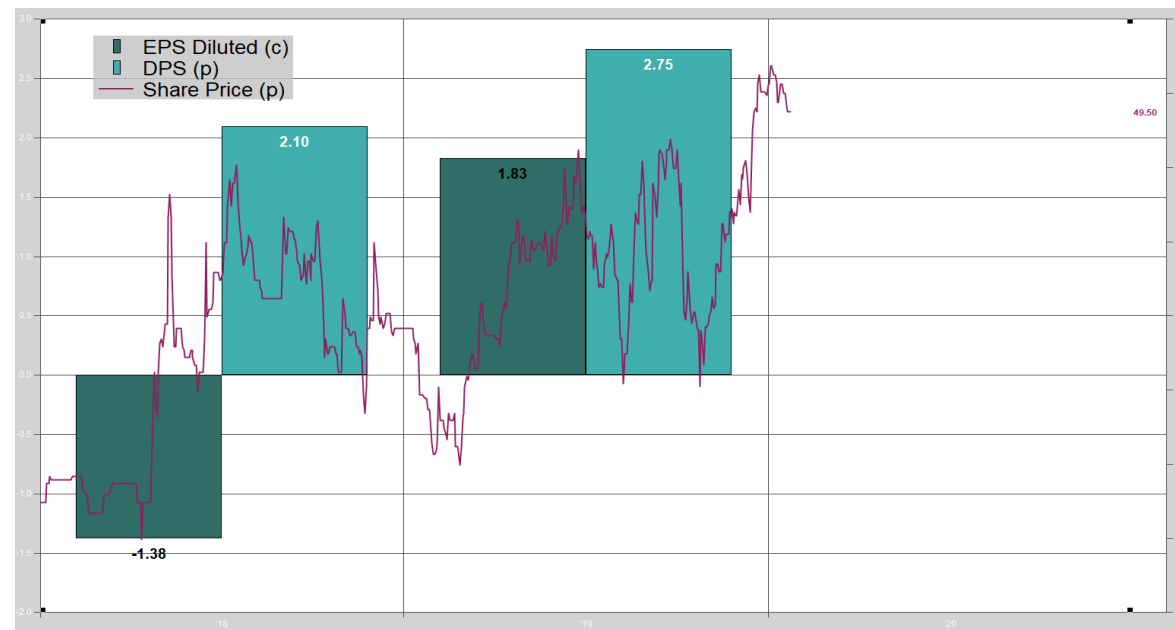
3. Private Equity Process – Duke Royalty

Due Diligence

- ▶ Extensive research of planned initial investments, modelling each investment line by line whilst overlaying scenario tests & sensitivities to gauge potential outcomes.
- ▶ Deep dive review of management, governance and connected parties with analysis performed by multiple members of the team.

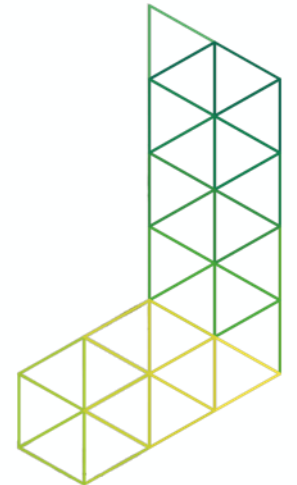
Informational Advantage Benefits

- ▶ Early exposure to a company with first mover advantage in the European space. **Maximizing the benefit of compounding from a low base.**
- ▶ Subsequent equity raises have brought in other large institutional investors as the business model has become understood. **Supportive to enhancing scalability.**



	2017	2020	CAGR %	Total growth %
Mkt Cap.	£86.63m	£120.41m*	39%	39%
EPS	-1.38p	3.26p**	137%	464%
DPS	2.10p	3.05p**	21%	45%
Yield on cost %	4.77%***	6.93%***		

Performance



Track record

Returns	1 month	3 months	6 months	1 year	3 year	5 year
Fund	-2.09%	+6.87%	+8.06%	+13.81%	+10.49%	+16.18%
Sector quartile	2 nd	1 st	1 st	2 nd	4 th	4 th
IA UK Equity Income TR	-2.60%	+4.39%	+4.21%	+11.39%	+16.56%	+30.01%

Return source: FE analytics as at 31/01/2020

Past performance is not a reliable indicator of future results

Smaller Companies Outperform

Longer term performance vs short term valuation presents an opportunity.

- ▶ Smaller companies have outperformed the market by **361.16%**.
- ▶ The risk-adjusted return for smaller companies is **4x higher** than the market



■ Numis Smaller Companies 1000 excl Investment Companies TR [481.52%]

■ UK All Share TR [120.36%]

Performance Breakdown

Second half of 2018 macro concerns & risk averse environment exacerbated by industry wide revaluation of asset liquidity.

30.06.16 – 31.01.18

DMI Total Return **33.08%**

IA UK Equity Income Total Return **23.12%**

Top Quartile **9/78**

30.01.18 – 28.02.19

DMI Total Return **-16.41%**

IA UK Equity Income Total Return **-3.37%**

Bottom Quartile

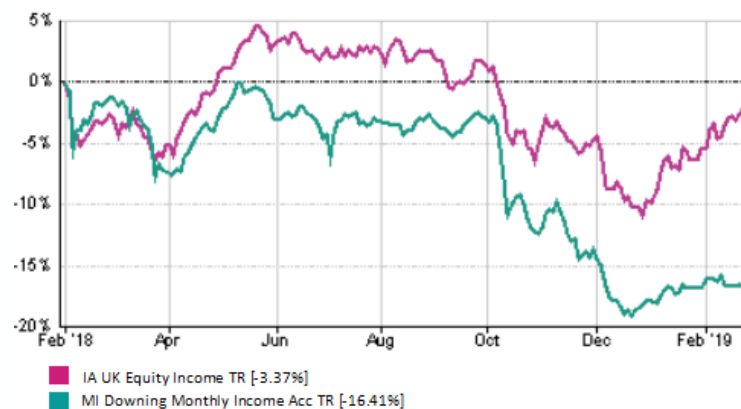
UK Junior Market Max Drawdown **-22.7%**

28.02.19 – 31.01.20

DMI Total Return **13.70%**

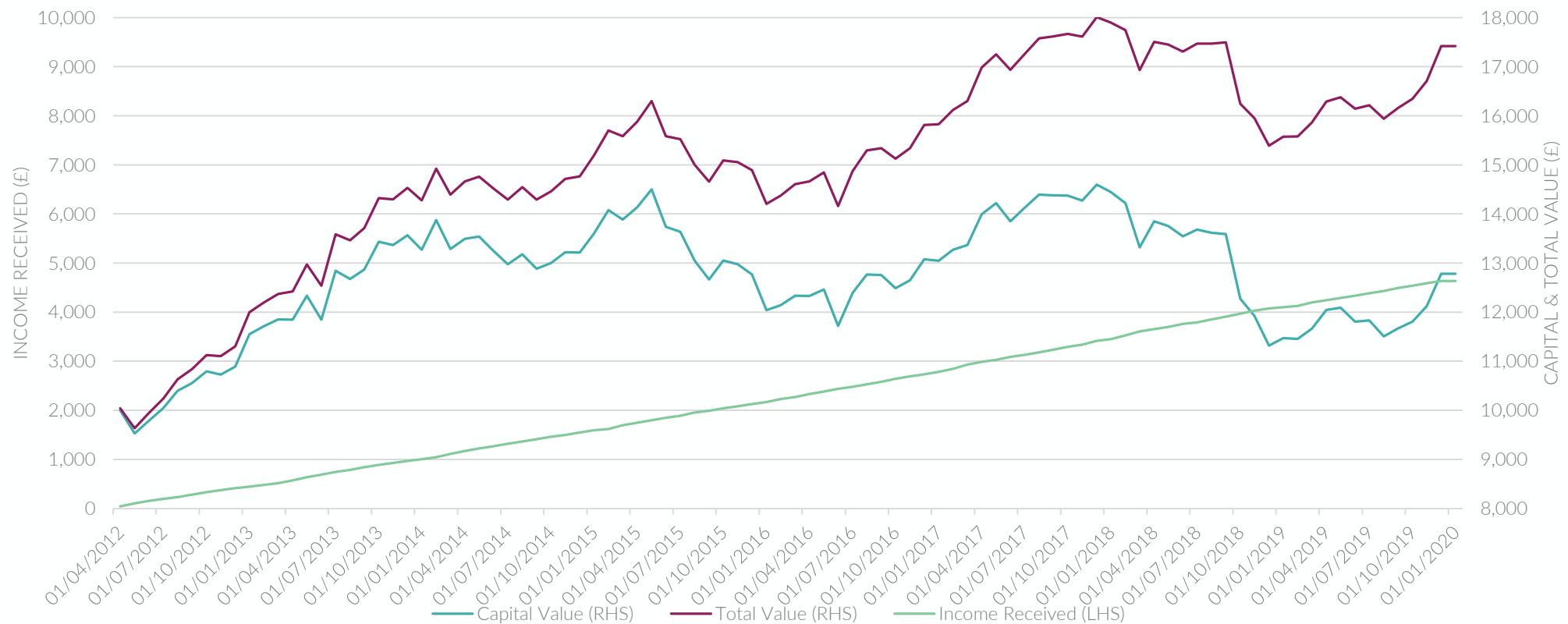
IA UK Equity Income Total Return **9.41%**

Top Quartile **15/86**



Example investment performance

- ▶ The graph below demonstrates a £10,000 investment in MI Downing Monthly Income Fund on 30 April 2012 through to 31 January 2020.



Structure

Overview	
Fund size	£47.9 million (as at 31 January 2020)
No. of companies	30-40
Distributions	Monthly
Current yield	4.71% (as at 31 January 2020)
Target income	Inflation protected income at a premium yield to the sector & market (this has not been lower than 4%)
Structure	OEIC under UCITS
Annual management charge	0.75%
Total Expense Ratio	1% p.a. (capped)*

Platforms



SHARES

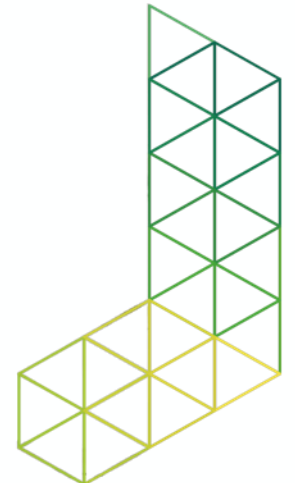
High active share: What is it and can it help you pick the best funds?



Five 'income incubators' from the small-cap market



Where our five fund experts are finding value



Thank you

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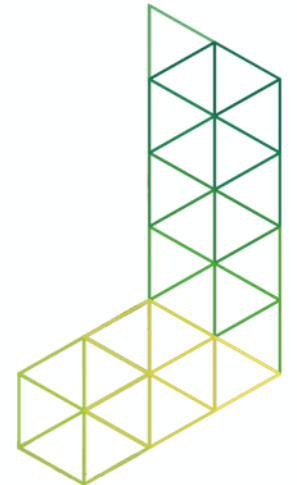
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Appendix



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20 February 2020

Key risks

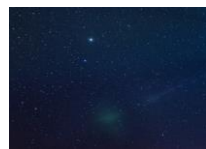
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Defaqto Income Risk Rating and Downing Monthly Income Fund

Jason Baran, CFA

February 2020

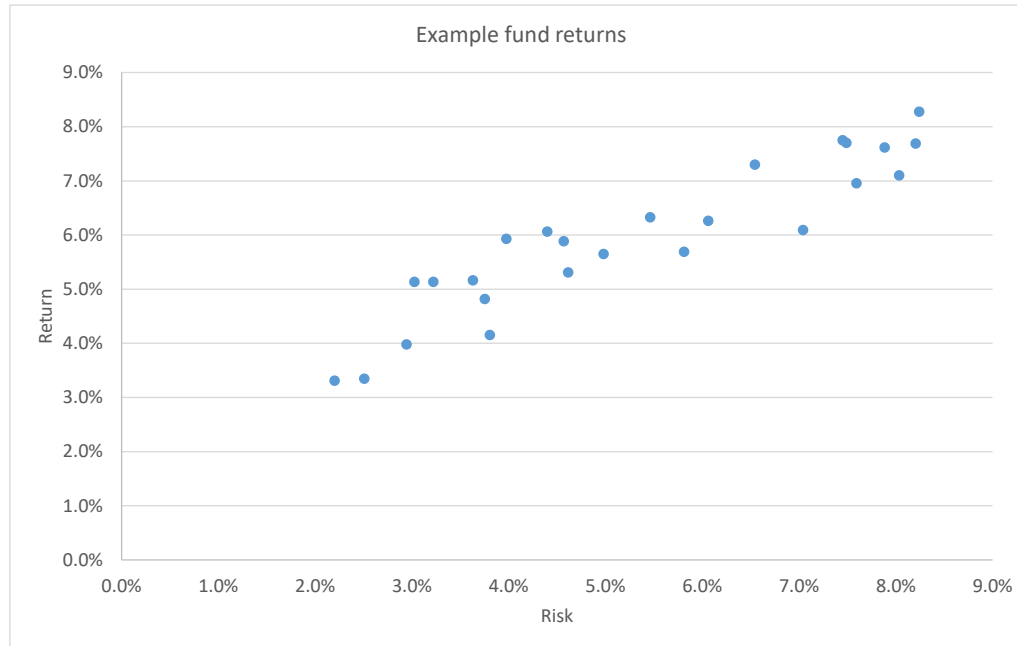


Learning objectives

- Differences of accumulation risk rating vs. income funds risk rating
- How to analyse income funds to ensure suitability
- Defaqto's attitude to income funds ratings

Differences of accumulation risk rating vs. risk rating income funds

Traditional accumulation risk rating considers the relationship between risk and return:

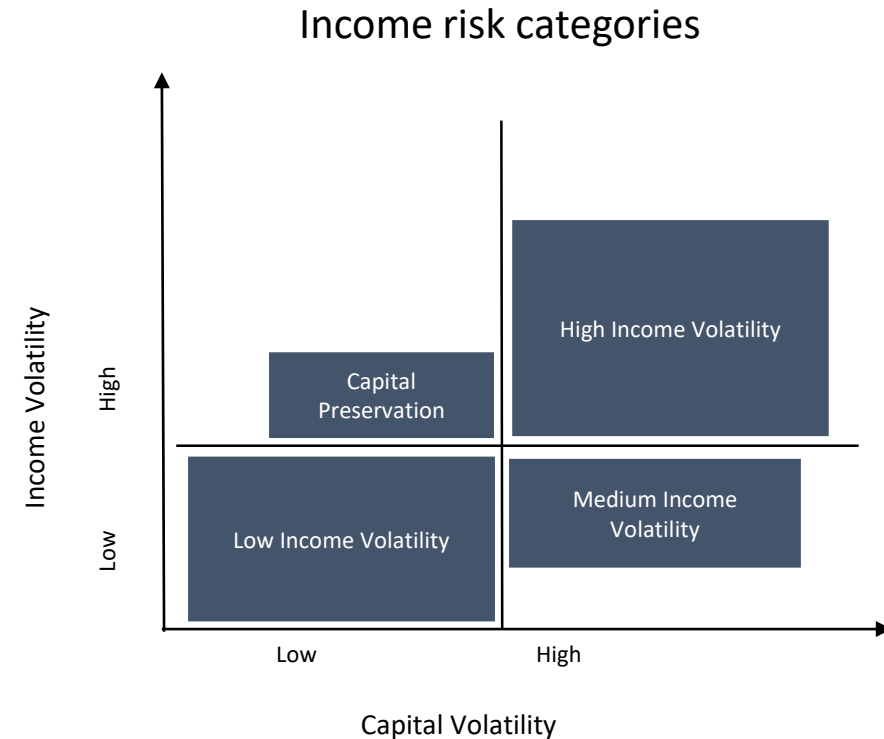


- Financial models available forecast volatility and total return - not income specifically
- Fund managers have discretion for how to distribute dividends over the course of a year. Distribution frequency and how much smoothing is employed significantly impact income volatility.
- Clients investing for income will have more specific needs than those investing in accumulation - not just income risk, but also capital risk and bequest wishes

Defaqto Income Risk Rating

To address these challenges:

- We split total return into income and capital components
- Analysis of long-term income fund returns also supports a split into four categories of income fund
- In-depth discussion with fund manager to assess how income will be distributed in future, any yield targets or other information not captured in fund fact sheets and other documents

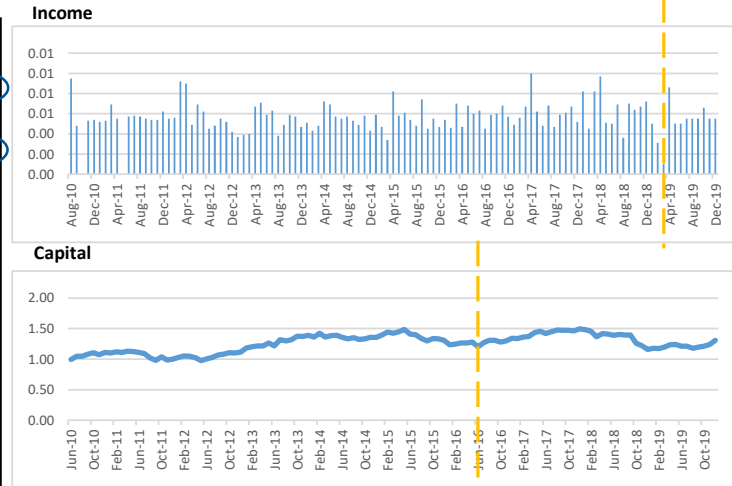


Downing Monthly Income Fund

The investment objective of the Fund is to achieve a high level of income, together with long term capital growth. The Fund intends to invest primarily in equities listed on a UK stock exchange. The Fund may also invest in other transferable securities (for example, without limitation, international equities), units in collective investment schemes, money market instruments, warrants and deposits as detailed in the Prospectus. No more than 10% of the Scheme Property of the Fund will be invested in other collective investment schemes.

10 yr Future Volatility 14.6%		
Cash	3%	CP
UK Index-Linked Bonds	0%	
UK Government Bonds	0%	11%
UK Corporate Bonds	2%	
Global (ex-UK) FI	6%	
Effective Duration	-	
Absolute Return	0%	
Commodities	0%	0%
Global Property	0%	
Private Equity	0%	
UK Equity	74%	HIV
Europe (ex-UK) Equity	0%	
North America Equity	3%	
Asia Pacific xJ Equity	0%	77%
Japan Equity	0%	
Emerging Mkts Equity	0%	
Other	10%	

Income Volatility			Annualised Historic Yields	
	Biannual	Annual		Sep 2019
3 year	28.8%	21.2%	1 year	5.3%
5 year	21.5%	14.7%	2 year	4.6%
7 year	18.3%	11.7%	3 year	5.1%
9 year	20.2%	12.1%	4 year	5.0%
Historic Capital Volatility			5 year	4.7%
3 year		7.7%	6 year	4.5%
5 year		11.1%	7 year	5.2%
7 year		11.3%	8 year	5.6%
9 year		11.1%	9 year	5.0%
Capital Drawdown				
3 year		24.1%		
5 year		24.1%		
7 year		24.1%		
9 year		24.1%		



	Name (1x)	Objective (1x)	Asset Allocation (2x)	Volatility (2x)	Drawdown (1x)	Income Cons (2x)	Manager (2x)	Total
Capital Preservation	Cash Gilts	Capital	Fixed Income Dur < 5 years	Income: >30% / 12% Capital: <7%	Max DD: <10%	Any		
Low income volatility	Bonds	Income	Fixed Income	Income: <30% / 12% Capital: <7%	Max DD: <14%	<1%	✓✓	2
Medium Income volatility	Multi-asset	Income & Capital Growth	Multi-asset	Income: <30% / 12% Capital: >7%	Max DD: <17%	1% - 1.5%	✓✓	5
High income volatility	Equity Risk Assets	Income & Capital Growth	Equity Risk Assets	Income: >30% / 12% Capital: >7%	Any	>1.5%		3