SHINING A LIGHT ON THE……
Downing Monthly Income Fund

AT A GLANCE

Investment Objective
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.

Inception Date	14 June 2010
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F00000MABD

Management	
Manager Name	**Start Date**
James Lynch	1 January 2016

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	0.00%
Large	0.00%
Medium	8.77%
Small	45.42%
Micro	45.82%

Top 10 Holdings		
Total number of holdings	32	
Assets in Top 10 Holdings	39.78%	
Name	**Sector**	**% of Assets**
McColl's Retail Group PLC	Consumer Cyclical	5.94%
Conviviality PLC	Consumer Defensive	4.97%
Card Factory	Consumer Cyclical	4.05%
Morses Club PLC	Financial Services	3.67%
Primary Health Properties	-	3.65%
Anglo Pacific Group PLC	Basic Materials	3.63%
Pacific Industrial & Logistics REIT Ord	-	3.60%
Premier Asset Management Group PLC	Financial Services	3.55%
SafeCharge International Group Ltd	Technology	3.45%
B&M European Value Retail SA	Consumer Defensive	3.26%

Volatility Measurements	
3-Yr Std Dev (volatility)	9.92%
3-Yr Mean Return (average)	8.37%

FUND PERFORMANCE

Performance from 1 January 2012 to 31 August 2017:

	2012	2013	2014	2015	2016	2017
Downing Monthly Income Fund	19.46%	30.91%	2.23%	1.32%	7.79%	13.68%
iShares UK Dividend	17.46%	24.15%	6.54%	0.95%	7.89%	4.36%

Performance over 12 months, 3 years, since launch and since management changes:

	1 year	3 years	Since Launch	Since management changes
Downing Monthly Income Fund	18.46%	26.44%	116.07%	22.54%
iShares UK Dividend	5.56%	15.98%	87.54%	12.60%

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE….

The fund was managed by Stephen Whitaker from launch; James joined the team in 2015, and took on full responsibility for the fund in 2016. The focus has been to make this a small cap fund. There are some mid-cap but this is at the low end, and there are no FTSE 100 companies.

The original fund was skewed towards the FTSE 100; there has been a period of transition whilst James has brought in a more focused strategy with at least 80% of companies valued at below £1 billion and a hard ceiling of 20% focused on companies with a value between £1 billion and £4 billion. During this period, the fund maintained its performance and has started to significantly outperform.

The fund remains small but with the change in strategy, and early indications of strong performance the fund is set to grow to around £50 million. The fund will need to soft close at around £500 to £600 million to protect performance for existing investors (but it IS someway from that figure).

Due to the focus on micro caps we discussed liquidity and James explained there is less liquidity with about 23% of the fund in companies with a market cap below £150 million. Around 33% is in the £150 to £500 million bracket. The most liquid is the £1 to £4 billion element.

We talked about the reason to sell and James explained that the hard ceiling plays a part, so if the company grows beyond a market cap of £4 billion this would be an immediate sell. Another reason would be where the price becomes disconnected; this can be in terms of being overvalued or where factors happen which impact its critical success.

I asked James whether there was a specific holding period and he explained there are no hard rules around this, it can be 2 to 3 years but they will not hold at any cost. If the catalyst for re-rating is quick then the holding can be really short. James went onto to explain that this is purely a stock pickers fund and he has no view on a sector or part of the market. He believes good small cap companies can outperform even in a recession.

Some examples of holdings include Accrol who make loo roll. They are one of the largest suppliers in the market with modern technology which helps to drive down costs and grow both earnings and dividends. One of its biggest growth markets for Accrol is discount retailers.

B&M is another company he likes, it is a discount chain which owns all elements of the value chain from logistics to being able to bring in household brands at discounted prices. This has enabled them to take on other discount stores and generate greater cash flow.

Another company similar to B&M is Card Factory. Unlike other loss-making card companies, they do their own designs, manufacturing and retail of products. This means they can sell 3 cards for £1 and still make a 20% profit. Other companies we touched on were McColls, who have had to shift their offering in face of competition from supermarkets like Aldi and Lidl. In doing so both earnings and dividends have grown. Pacific is another company they like, who purchase and refurbish properties in good locations.

In summary, many income funds have similar holdings focusing on the FTSE 100. James believes the market he operates in is under researched with only five other funds fishing in this pond. There are over 2,500 companies to sift through and corporate governance plays a big part, which brings it down to around 150 quality companies from which they will choose up to a maximum of 40. In terms of performance since re-organising the fund, there has been a shift in performance, and the last 12 months has been really strong. Certainly, as a diversifier this might be a fund to consider, investors may however want to wait and see whether the strong performance continues.