Fund Review

Downing

VT Downing Small & Mid-Cap Income Fund

February 2026

For professional advisers only

Defaqto Fund Reviews

This document is designed to provide the reader with a quantitative overview of the fund reviewed. The review then goes on to examine information of a more qualitative nature, which has been obtained through an interview process with the fund manager/s.

The qualitative information covers specific areas including the fund manager's philosophy, their people, and the processes they employ. Additional information is also provided on their research capability, the resources they have at their disposal and how they manage risk. All of this information goes towards creating this comprehensive Fund Review.

Defaqto Ratings

Ratings to help advisers and their clients make better informed decisions

The Defaqto experts have created a range of ratings to help advisers find the best product or proposition for their clients.

Show at a glance how a fund or fund family performs in comparison to the rest of the market.

Demonstrate the comprehensiveness of products across a range of areas, from pensions to DFMs.

An overall assessment of service – by advisers for advisers.

Suitability ratings to support compliant advice

Defaqto have created a set of ten Risk Profiles, and four Income Risk Profiles with corresponding ratings to which funds are mapped using a robust process. This helps advisers to evidence suitability for their clients in both the accumulation and decumulation phase:

Fund Review

Downing
VT Downing Small & Mid-Cap Income Fund
Fraser Donaldson Investment Consultant

Executive summary

The VT Downing Small & Mid-Cap Income Fund is an equity income fund focused on small and mid-cap UK companies, and aims to provide a source of income uncorrelated with large cap UK equity and other more mainstream UK equity income funds:

- Downing was founded in 1986 and has in-depth experience of private equity and venture capital
- The Fund focuses on small cap and mid cap companies with enduring competitive advantage and strong balance sheets, to support growth of income and capital
- Uncorrelated with the UK Smaller Companies peer group
- Manager Josh McCathie took over the fund in April 2021, having worked on the fund as co-manager since 2018
- Fund Advisory Committee comprised of industry veterans with over 20 year's fund management experience each provides challenge and ensures that the fund is managed in accordance with the defined process

Investment objective

The investment objective of the Fund is to achieve a quarterly income, together with capital growth over the long term (5 years). The Fund aims to meet its objective by investing at least 80% in shares of small (those with a market capitalisation of less than £1 billion)and medium sized (those with a market capitalisation of less than £5 billion)companieswhich are domiciled in, have their head office located in, or (which if not established in the UK) exercise the significant part of their business in the UK and which the Manager considers to have the ability to increase returns over time.

About Downing

Downing has been managing private equity and venture capital funds since the 1980's. Group AUM is £2.5bn (as at September 2025).
Downing Fund Manager's was launched in 2010 with the goal of exploiting the inefficiencies within the Smaller Companies segment of the UK market by applying a private equity style due diligence process. Initially this was via a suite of micro-cap strategies.

In June of 2016 Downing became the sole manager of the VT Downing Small & Mid-Cap Income Fund (formerly known as the VT Downing Monthly Income Fund) in order to capture these inefficiencies further up the market-cap spectrum while providing an often overlooked source of income.

The Fund's investment style builds on Downing's private equity heritage. The team takes a value-led, bottom-up approach to building a high conviction actively managed portfolio.

defaqto
High Volatility
NATURAL INCOME RATED

Quantitative review

The quantitative data that appears over the following pages has been generated by Defaqto using a combination of third-party and proprietary data sources and data provided by the asset manager. The information reflects the availability of data as at the dates highlighted.

All information reflects the investment solution specified in the information and classification table below.

Fund information and classification

Launch Date	14 June 2010
Fund Manager	Josh McCathie
Domicile	GBR
Assets	Active
Investment Style	Return Focused

Type	OEIC
ISIN[1]	GB00B625QM82
IA sector	UK Smaller Companies
Morningstar category[2]	UK Small-Cap Equity

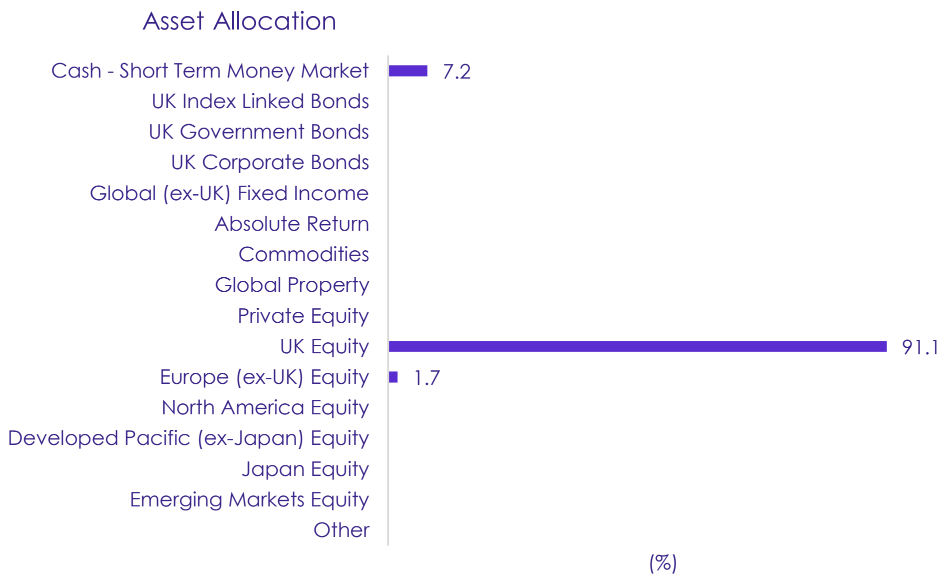
[1]This is the shareclass used for the quantitative data and analysis over the following pages
[2]The Morningstar Category is used in all comparative analysis, over the following pages.

Fund size and fees

AUM	£33M
Performance Date	30 January 2026
OCF Estimated	1.00%
OCF Actual	1.00%
Transaction Fee Actual	0.89%
Performance Fee (Yes/No)	No
Performance Fee Actual	n/a

Source: Morningstar, end 30 January 2026

Asset allocation



Note

This asset allocation chart is drawn using the 16 asset classes (including 'other') that we use in Defaqto Engage.

This may differ slightly from the asset allocation described by the asset manager, due to various asset class roll-up and mapping variances.

Source: Morningstar, 7 February 2026

Top 10 holdings

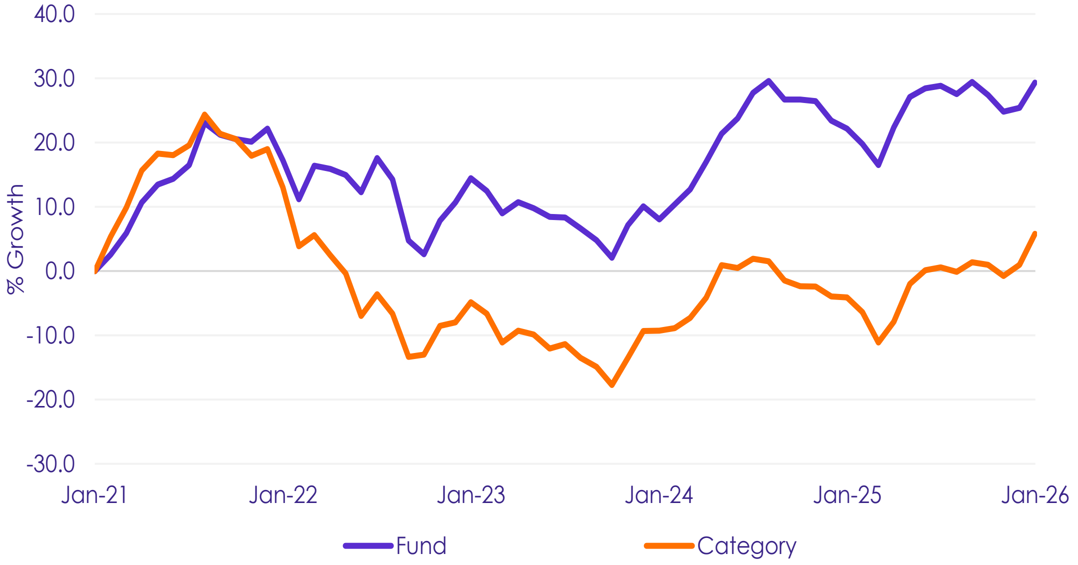
Total Number of Equity Holdings	44
Total Number of Bond Holdings	-
Assets in Top 10 Holdings (%)	32.9%

Name	Country	% of assets
Galliford Try Holdings PLC	United Kingdom	4.0
Redcentric PLC	United Kingdom	3.6
XPS Pensions Group PLC	United Kingdom	3.5
Fonix PLC Ordinary Shares	United Kingdom	3.5
FRP Advisory Group PLC Ordinary Shares	United Kingdom	3.4
Safestore Holdings PLC Ordinary Shares	United Kingdom	3.2
Coats Group PLC	United Kingdom	3.0
Hollywood Bowl Group PLC	United Kingdom	3.0
Telecom Plus PLC	United Kingdom	2.9
Restore PLC	United Kingdom	2.8

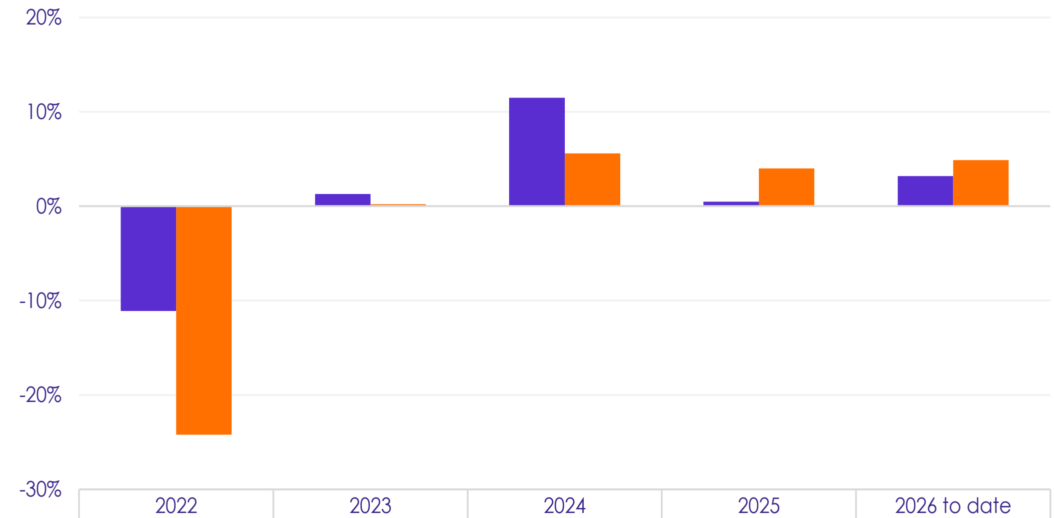
Source: Morningstar, 7 February 2026

Performance

Cumulative Performance - 5 year



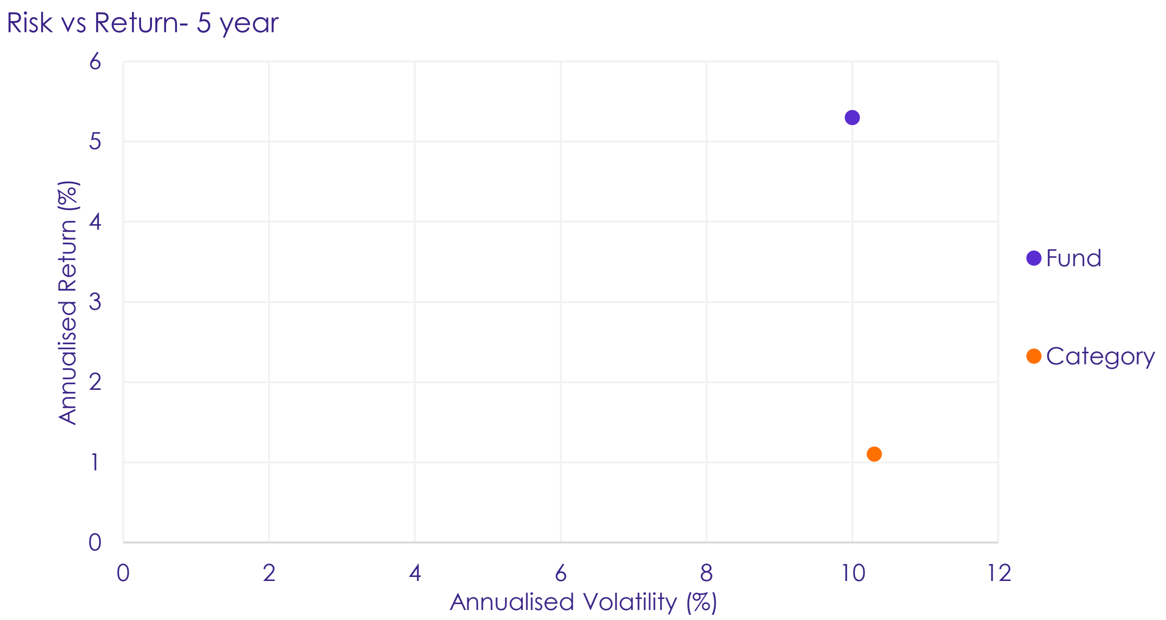
Annual Performance



	2022	2023	2024	2025	2026 to date
Fund	-11.1%	1.3%	11.5%	0.5%	3.2%
Category	-24.2%	0.2%	5.6%	4.0%	4.9%

Source: Morningstar, end 30 January 2026

Risk



Source: Morningstar, end 30 January 2026

Drawdown

Last 60 Months	
Max Drawdown	-21.1%
Positive Months	30
Negative Months	30
Worst Month	-8.7%

Source: Morningstar, end 30 January 2026

Liquidity

Days to liquidate holdings	% of portfolio
1 - 7 days	64.11
8 - 30 days	35.89
31 - 180 days	-
181 - 365 days	-
365+ days	-

Source: Downing, end 31 December 2025

Qualitative review

Philosophy

The fund manager's philosophy is based on strong active management, investing in quality businesses with a long-term view, and focusing on small to mid-cap businesses to take advantage of lower research coverage within the market. The fund also aims for diversification by avoiding many of the common large cap holdings held by UK equity income funds in the sector. This should mean that the fund returns and income distributions have a low correlation to the peer group.

The manager employs a quality value investment approach, aiming to identify UK companies with overlooked quality business models or those underappreciated for their potential to compound earnings growth and dividend distributions over the medium to long term.
The fund aims to generate returns and income via three main types of investment throughout the business lifecycle:

1. Income Incubators. Companies that are small but growing strongly, with clear growth visibility
2. Return Compounders. More established companies with an established track record of paying growing dividends, with more growth likely to come
3. Core Yield. Companies that have matured, growth moderated, but with a clear track record of dividend payments and return on capital

The fund has evolved to focus on high quality, lower risk opportunities with good growth prospects that underpin earnings and dividend progression.

In addition, the expected holding period is around 3-5 years, which will reduce unnecessary trading costs and re-investment risk.
Some consideration is made to ESG factors via exposure to sustainable structural themes, for example Sustainable Cities and Communities, of which currently comprise roughly 80% of the fund exposures. (The fund does not use a strict exclusions policy.)

People

Fund manager Josh McCathie has more than ten years industry experience, and joined Downing in 2018, having previously worked at BRI Wealth Management focusing on UK equity research.

He is supported by several experienced fund managers who have joined Downing in the last year. This enables a wider net to be cast in terms of company coverage, to help generate investment ideas, and provide a more thorough discussion of investments.

Judith Mackenzie was mentioned as also providing oversight and input into the investment process, as part of her role as Head of Downing Fund Managers. She began her investment career with Brewin Dolphin in 1997, and spent six years at Aberdeen as a fund manager before joining Downing.

In addition, the Downing Advisory Committee provides oversight and a formal quarterly review. This is comprised of senior investment personnel, all of whom have over 20 years' investment experience. Informal meetings are also held within the quarter.

Josh McCathie, Fund Manager

Josh is the lead manager for the VT Downing Small & Mid-Cap Income Fund.

Josh joined Downing in 2018 and brings more than 10 years' investment management experience. He previously worked at BRI Wealth Management, focusing on research and constructing portfolios for high-net-worth individuals.

Josh is a CFA Charterholder.

Source: Downing, end 25 December 2025

Process

The manager begins by screening for small to mid-cap companies, identifying at which point they are in their lifecycle. Investments are targeted with a market capitalisation ranging from £100 million to £4 billion at entry. There is also a consideration of sectors relating to ESG risk and alignment with long-term enduring structural trends. The process then moves to an information gathering stage and construction of a financial model and valuation of the company.

A comprehensive picture of the company is built with a view to identifying its sources of enduring competitive advantage and the strength of the balance sheet. A valuation model will be built to understand the nature of the company's free cash flow, and valuation vs the sector. This is intended to identify companies that are 'quality' and represent an investment opportunity that the market has missed.

In terms of ESG assessment, the Sustainability team do not rely solely on external ratings. Instead, the team uses external data to challenge and validate their internal assessments. In the short term, the Sustainability team reviews scores manually to ensure companies are appropriately flagged as risky. The team also has a Risk and Response log which helps monitor risks and the engagement response from the company. Engagement with companies in Downing Fund Managers is viewed primarily as mitigating risk, so it makes sense for the companies identified as high-risk to be the ones we more actively engage with.

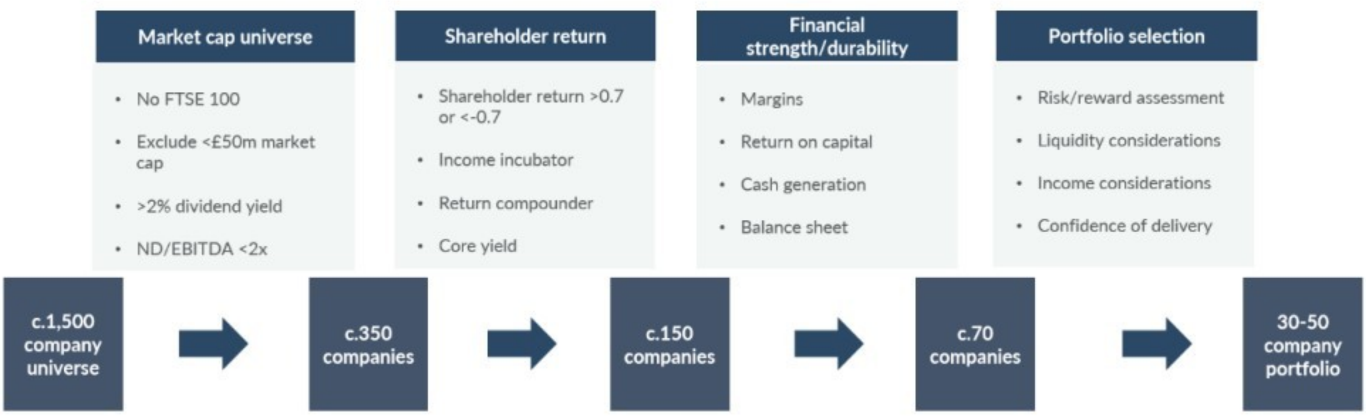
The evolving process aligns Downing with industry best practice which they believe improves the accuracy of risk assessments and ensures engagement efforts are targeted and effective. By refining how the company identifies and prioritises risk, the Sustainability team can better support stewardship objectives.

Fundamental research is conducted typically involving management and on-site operational meetings, customer, supplier, ex-employee meetings and external consultancies. Typically, Josh will take around 18 months to complete all research and for a suitably cheap valuation to appear before investing. However, this can be completed more quickly should the investment case require it, e.g. markets presenting a buy-in opportunity.

Return catalysts such as product releases, contract awards, M&A activity, deadlines (regulation, legal), earnings releases or company guidance announcements that can help kick-start a market revaluation of the company are identified.

During portfolio construction, the risk/reward, liquidity and income characteristics are considered. New positions are typically added with a 1-1.5% weighting, which may be increased up to a max limit of 4.5%.

Responsibility for investment decisions rests with the fund manager who is free to invest without Advisory Committee approval. The Advisory Committee role is to provide oversight and risk management, comprising of senior investment personnel who meet quarterly on a formal basis and informally within the quarter. Investments are typically held for three to five years.



Source: Downing, end 25 December 2025

Risk management

Risk is considered mostly on-desk by the fund manager, in particular via a scoring of earnings risk based upon various macro factors and valuation metrics.

A final risk score is assigned to each company based on these liquidity and earnings based measurements. All else equal a highly liquid position with low risk, strong growth, strong upside and a high yield will receive the highest allocation in the portfolio. Equally, if a position becomes less liquid, or moves to a higher risk score, then the portfolio allocation is reduced.

Liquidity risk is measured using 250-day traded volume, and excludes the top and bottom 10% of trading days so as to create a consistent daily liquidity measurement.

The Fund is overseen by the Advisory Committee which monitors the Fund's parameters such as liquidity, volatility, market-cap allocation, expected forward yield, performance, margin of safety, and other portfolio characteristics. This ensures alignment with the outlined strategy of the Fund. Advisory Committee approval is necessary if the Fund deviates from predefined thresholds. The Committee meets quarterly and, in line with FCA best practice, has two independent members including an independent chairman.

Further risk monitoring and fund oversight is carried out by the Risk & Oversight Committee. The committee meets quarterly and covers all Downing Fund Managers' funds. The committee comprises of the Partner & Head of Downing Fund Managers, Partner & Chief Operating Officer, Head of Risk & Compliance, Risk & Compliance Director, Investment Operations Director and the Sustainability Lead.

Advisory Committee papers are compiled together using a combination of FE Fundinfo and Factset.

About Defaqto

Defaqto is a leading financial information, ratings and fintech business that supports financial institutions, intermediaries and consumers to make smarter financial decisions.

Maintaining the UK's largest financial product database, Defaqto uses proprietary research methodology to develop independent ratings, reviews, insights, and technology that raises industry standards, powers consumer choice, and helps the industry to meet evolving consumer needs.

If you would like more information, please contact sales@defaqto.com or call 01844 295 546.