Downing's Responsible Investor Policy

updated March 2021

Introduction

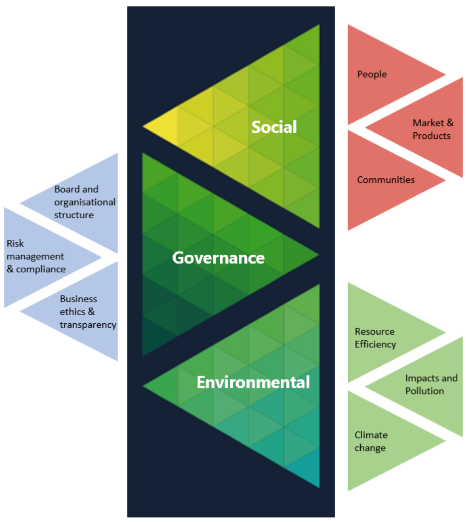
At Downing, we focus on investing in things that matter - our environment, our health, our society, and our economy. Founded in 1986, our overall purpose is to make investment more rewarding: by being profitable for our investors, supportive to the businesses we fund and, through their success, ultimately rewarding for society.

As a partnership, we work for the benefit of our members, but also strive to have a positive impact on society and the environment taken as a whole and we hope to be recognised as a B-Corporation later this year.

Our firm-wide focus has always been on responsible investment, maximising returns for investors while minimising risk, and, like any responsible investor, over recent years we have broadened our criteria when assessing risks and opportunities to include Environmental and Social aspects while continuing to push for higher standards of Governance.

We recognise how vital it is that we ensure ESG considerations are fully integrated into our business from our mission, through to our roles, responsibilities and compensation, risk management and of course investment decisions.

This updated policy outlines the key objectives and guiding principles that form the basis of our evolving Responsible Investment approach. These objectives and principles are supported by our ESG Framework that helps us contextualise the broad concepts of Environmental, Social and Governance and facilitate their application to us as a business and our different funds and products.



Diverse assets & investments

Downing is a firm with a diverse range of assets under management, and investors ranging from multinational institutions to retail customers making their first investment. As a result, our investment mandate varies across funds and products, so this corporate policy will now be supported by individual ESG strategies in the following areas:

- Listed equities
- Energy & Infrastructure
- Property lending
- Development capital
- Venture capital

These strategies, together with any complementing tools and procedures, will incorporate guidelines on relevant environmental, social and governance aspects as they may specifically apply to our different lines of business, following our ESG Framework above.

Both this policy and the supporting strategies are living documents and will be frequently updated as we evolve our approach to responsible investment.

Our overall objectives

Central to Downing's ethos is a commitment to be a "Responsible Investor". We aim to protect and enhance returns for our investors by placing Environmental, Social and Governance (ESG) criteria at the heart of our business and investment activities.

We understand that ESG issues represent risks and opportunities; and that these issues are becoming an increasingly material factor with investments. By taking a long-term, sustainable approach with our analysis, decision-making and active asset management, we strive to take these into account, mitigate risks and maximise opportunities, while endeavouring to facilitate wider societal and environmental benefits, wherever possible.

In this context, we will further aim to support and actively seek out investments that promote the principles of ESG, as well as create long-term, sustainable value and have a positive impact on society and the economy.

Our 2021 objectives

Five key goals to further our Responsible Investment strategy:

1. Become a signatory to the FRC Stewardship code
2. Be recognised as a B-Corporation
3. Train all staff on ESG investing – and ensure every appraisal covers ESG integration
4. Develop individual ESG strategies for each business area
5. Publish Downing's own climate change report in line with TCFD guidelines

Our principles

Our approach is underpinned by a series of ESG principles that reflect our commitment to embed Responsible Investment considerations as part of our normal business operations. These are:

1. Integration

To meet our objectives, we will integrate our Responsible Investment System both within our business and throughout the lifecycle of our investments as shown in the diagram below.

Review

- We review our Responsible Investment System periodically to ensure it remains relevant in the context of our business and the evolution of the Responsible Investment agenda.

Exit

- We will undertake an ESG evaluation on exit and we endeavour to quantify and report on value creation & impact wherever this is possible.
- Where pertinent, we will disclose ESG information as part of our divestment package.

Reporting

- We are setting out protocols for regular reporting to the PRI and other stakeholders

Product design

- We will be clear on the investment objectives for a given fund and state how ESG is incorporated at a product level

Pre-Investment

- We have appropriate tools in place that set out a systematic approach to analysing ESG risk and opportunity.
- ESG matters are discussed throughout the decision-making process from screening to DD to KPI setting

Stewardship

- We aim to actively influence the ESG performance of our investees, through prioritised action plans and targets
- We require compliance with relevant laws and regulations.
- We are active voters on listed funds with a clear voting & engagement policy

We will do so in a structured manner, which seeks to systematically and effectively apply the commitments made in this Policy. However, we acknowledge that achieving full and successful integration will mean a customised approach to different investments and mandates. To this end, we are committed to carefully consider integration in the context of the distinct ESG Strategies developed for each of our business areas as highlighted above.

Our Responsible Investment System has also been set out with due consideration of (amongst others) the PRI's six principles, the BVCA's RI Framework, Investment Association Guidelines, GRESB criteria, and the FRC Stewardship code. Downing LLP supports the Paris Agreement and is committed, both as a firm and an asset manager, to reporting in line with or ahead of the Taskforce for Climate-related Financial Disclosures roadmap to 2025.

We will engage with policy makers through bodies such as UKSIF and the BVCA and this engagement will align with our evolving Responsible Investment Policy. We will also continue to provide data to a number of bodies and will engage directly with our regulators, the Financial Conduct Authority.

We expect investment staff to take ESG factors into consideration when they approach investment opportunities, and all auxiliary staff to also understand the ESG implications for the projects we all work on. By being Responsible Investors, we are committed to equipping staff with relevant knowledge that assists them in performing their work in an ESG aligned manner.

Our 2021 objective

In 2021 we are changing our appraisal programme to include ESG in appraisals for all staff so that we can recognise the right behaviours across the firm. All managers with investment management responsibilities will have a specific ESG objective, with potential to impact their bonus, and the CEO, COO and both the Head of Unquoted and Head of Quoted investments will all have their compensation partially determined by the ESG performance of our portfolios.

2. Influence

Through active ownership, we will endeavour to engage with and assist individual businesses in managing ESG risks and opportunities better than their competitors to create value and a competitive advantage, while promoting positive benefits to society and the environment. As we invest mostly in smaller UK companies and assets, including some businesses at an early stage of development, we accept that this will take time and that our investee companies will need support to adopt their own ESG plans and processes. Therefore, we will start at home with Downing LLP's own ESG management and then seek to share our experience and insights with our investees.

Our 2021 objective

For the first time Downing will become a signatory of the Stewardship code – a draft of our compliance statement will be published once our report has received FRC approval.

3. Disclosure

We will seek appropriate monitoring and disclosure of ESG matters by investees so that we have a better understanding of what we are investing into, and the ability to assess their performance against any ESG initiatives we decide to implement.

We believe trust, respect and transparency to be the basis of our long-lasting relationships. Therefore, we will aim to provide clear, honest and transparent reporting and other communications on ESG matters affecting us and/or our investments, where required by our investors and other stakeholders.

We will further distribute this Policy to potential investee companies and expect them to consider it when choosing us as an investor. We are also committed to meeting PRI standards for disclosure, so we will publish our current status even when we aren't as evolved as we would like to be.

Our 2021 objective

Our aim is to publish our first ESG Report later in 2021, summarising our engagement initiatives and the sustainable outcomes these have achieved.

4. Continual Improvement

We are encouraged by the growing momentum and developments in the Responsible Investment and ESG areas and look forward to working with the investment community to develop sustainable ways of conducting business and leading by example.

Our 2021 objective

A key objective this year is to engage more with both the industry and our investors and advisers, so we were pleased to become members of UKSIF in 2020 and hope that this, along with our first climate change strategy (Summer 2021) and our ongoing work with the Quoted Companies Alliance on governance will help us be a force for change across the E, the S and the G.

We continue to review our progress on a semi-annual basis, report to the EXCO, and communicate progress to the wider firm to ensure momentum is maintained.

Sustainable Investing

As a firm with a long history of investing in renewable energy generation, and more than a third of our assets under management in the Renewable Energy & Infrastructure sector, we are used to dealing with changing energy prices, emission reduction targets, grid balancing solutions and new technologies coming to market. We are therefore happy to follow the Taskforce for Climate-Related Financial disclosure (TCFD) guidelines and both measure and disclose our approach to climate-related risks and opportunities. We will do this initially for our own business in 2021, and going forward for our portfolios of investee companies, prioritising (a) those for which climate change is a material risk or opportunity and then (b) by percentage of our assets under management.

We are seeing increasing demand for sustainable products, and we expect our firm-wide mandate will shift over time from responsible investment, to sustainable and in some areas impact investment, but we will transition product by product and ensure that we bring investors along with us.

In 2021 Downing LLP has committed to the UN Global Compact corporate responsibility initiative and its principles in the areas of human rights, labour, the environment and anti-corruption.

Screening and exclusions – our evolving approach

Like many investment managers, historically we have tended to avoid a number of sectors, companies and investments because we believe they cause harm to the environment and society that we cannot mitigate as responsible investors. Examples of this being weapons, fossil fuels and tobacco.

This approach has evolved over the last year as we have developed individual investment strategies for different asset classes. As a result, we have decided to eliminate pure negative screening at corporate level, allowing the different funds and products to set the right level of screening (including the boundaries of any negative screening) in a way that aligns to the best interests of their respective investors.

Whilst we accept that in certain cases, it may not be appropriate or desirable to adopt a strict negative screening approach, where this is the case, any investment in higher ESG risk sectors will have to carefully consider (a) how inherent risks are reflected in company/investment valuation and (b) our level of influence on management teams to foster change and value creation through an active ownership approach. In other sectors, with known ESG issues we may also decide to screen for best-in class investments, identifying and supporting management teams that we think are better placed than their competitors today to become successful and sustainable businesses in the future.

Whilst our approach to negative screening may vary by fund and investment product, we maintain some minimum standards we would expect of any company for it to attract Downing managed funds: at the very least that the business meets local laws and regulations, that they are safe places to work and that the management has a code of ethics and/or anticorruption policy in place.

Management commitment

Downing's senior management is committed to providing all necessary resources within our reach, including allocation of enhanced ESG responsibilities to certain staff which form part of our ESG Committee, to ensure appropriate implementation of the pledges outlined in this document.

We have also this year instigated firm wide ESG investment training for all staff and will continue to offer 5 days study leave to members of our team that want to develop their skills and understanding including the CFA Level 4 Certificate in ESG Investing or other equivalent qualifications that are suited to individuals and their roles.

James Weaver, as COO and board member responsible for ESG, will champion the education and engagement of our people to ensure Downing's culture changes along with our policy and processes.

T. McGing

Tony McGing, CEO
16 March 2021

PRI

UKSIF
UK Sustainable Investment and Finance Association