

# Development Capital

## Approach to sustainability

Downing 

At Downing, we aim to partner with management teams whose ethos, beliefs and interests are aligned to ours, including our approach to promoting ESG and the sustainability agenda. We use our extensive sector knowledge and experience in building businesses to add value not only in financial terms, but also in the wider benefits to society of our Development Capital investments such as elderly residential care homes and specialist education facilities.

Central to Downing's ethos is a commitment to be a "Responsible Investor". Accordingly, every year we publish a firm-wide Responsible Investment Policy which sets out our overall ESG objectives and aspiration to become leaders in responsible investment through our guiding principles of integration, active ownership and transparency. This document outlines how we go about implementing these principles in Development Capital.

### Our portfolio and investment strategy

We invest in asset-backed companies mainly focusing on care homes, residential education, pubs and hotels; that is, trading businesses operating from freehold properties. An overview of our portfolio as at December 2020 is shown overleaf.

For the sectors we invest in, there are a number of environmental and in particular social factors that have been the focus of our attention during the Covid pandemic, however we also see a real opportunity to make a positive social impact which we will measure and report on going forwards.

Although we typically take equity stakes in these businesses, and so have significant board influence, we see our relationship with management teams as a flexible partnership, actively engaging and working together to maximise value creation. Our approach to ESG is therefore very much one of integration.

## Material ESG factors in Development Capital

Downing initially conducted an analysis of material ESG risks for each of our target sectors based on the Sustainability Accounting Standards Board (SASB) materiality maps. This was further refined by the Development Capital team to focus on the UK market more specifically, resulting in the list below.

### Social

#### People

- Promoting diversity & inclusion as well as high labour and health & safety standards in our portfolio companies
- ESG investment training programme for our own staff

#### Services

- Ensuring high quality services are provided as evidenced by top ratings from the relevant regulator
- Customer welfare, particularly for those with a mental illness which could make them particularly vulnerable
- Applying robust safety standards for staff and residents at all times in particular in the context of the Covid pandemic

#### Communities

- Considering local impact as part of service delivery for operational businesses
- Transparent communication and engagement

### Governance

#### Board & organisational structure

- Board diversity, inclusion & accountability, and Downing LLP representation on boards of companies where we hold an equity stake to protect shareholders' interests

#### Risk Management & Compliance

- A strict and robust approach to risk management, including ESG factors
- Compliance with relevant policy and regulatory requirements at all times

#### Business Ethics & Transparency

- Strong conflict of interest policies and a committee with an independent chair
- Transparent reporting on ESG

### Environmental

#### Climate Change

- The need to build resilient assets and in particular to design management of higher temperatures into new buildings and significant refurbishment projects

#### Resource Efficiency

- Designing for, and promoting efficient use of, energy and water in our buildings

#### Impacts & Pollution

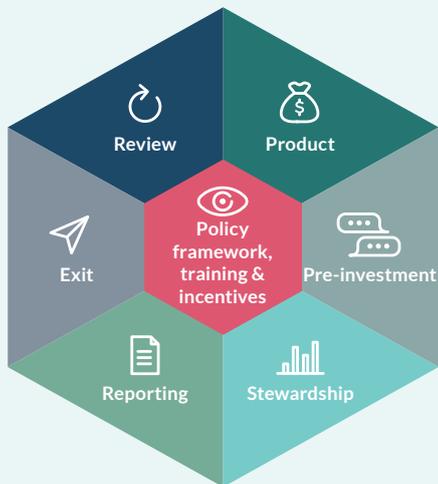
- Preventing negative environmental impacts, including pollution and waste, through compliance with regulations and active management of identified risks

WE SUPPORT



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

# ESG integration throughout the investment life cycle



## Product

- We consult and take into account the needs and expectations of clients and beneficiaries when we create and review investment mandates.

## Pre-investment

- We apply our proprietary ESG tool to analyse material risks and opportunities. This tool includes guidelines specific to each sector.
- ESG matters are included in investment papers, discussed throughout the decision-making process and are a mandatory agenda item at Investment Committee.

## Stewardship

- As shareholders, we continuously engage and aim to actively influence the ESG performance of our investees.
- We require compliance with relevant laws and regulations and now mandate a code of ethics and/or anti-corruption policy.

## Reporting

- We report annually to the PRI and UNGC and this will be extended to the FRC on acceptance of our stewardship code application.
- We now include material ESG factors & impact in our investor reporting.

## Exit

- Where pertinent, we will disclose ESG information as part of our divestment package including performance against any KPIs.
- Going forward we will endeavour to quantify and report on ESG impact.

## Review

- We review policies and procedures regularly to ensure they remain relevant in the context of the private equity market.
- We encourage early adoption of emerging standards which are being stepped up to support the UK's commitment to Net Zero.

## ESG integration in Development Capital

Behind this approach is a team of highly skilled investment professionals that share our values and passion for responsible investing. The team is led by Mark Gross, who retains ultimate responsibility for this Strategy and its implementation.

We have developed a proprietary pre-acquisition ESG checklist that is supported with suitable guidance to allow our investment professionals to identify material risks, including both *social* aspects of the businesses and *climate change* implications from the real estate assets from which they operate.

We can then use the findings of our ESG checklist as an initial engagement tool to start a conversation with portfolio companies around changing expectations and emerging risks, relating to both employees and customers.

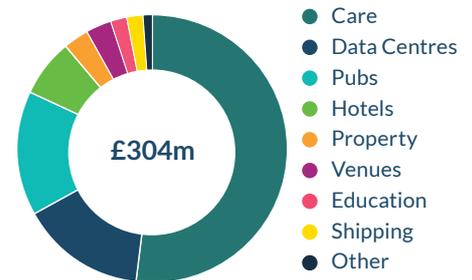
The next stage will be to integrate ESG action plans into our investment management system as we consider these to be important to the businesses' success and value creation in the long term.

We acknowledge that some of the management teams we support are resource-stretched and need to focus on many different aspects to drive growth. To ensure that ESG needs are also met, our teams will support our partners through continual engagement. In addition, we facilitate access to external expert support & resources where they may be required.

Senior level commitment at Downing is demonstrated via the CEO, COO and Head of Investment's compensation being linked to the ESG performance of the portfolio.

We are also committed to high standards of disclosure and are preparing to report on climate risk in line with Taskforce for Climate-related Financial Disclosure guidelines for 2021.

## Assets under management as at December 2020



## We support four main Sustainable Development Goals:



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Downing LLP is authorised and regulated by the Financial Conduct Authority (Firm Reference Number 545025)

Signatory of:



HealthInvestor Awards 2020 WINNER Private equity investor of the year