

Property Lending

Approach to sustainability

Downing

At Downing, we believe that by gradually working in close partnership with our institutional funders and progressively stepping up our expectations from the developers we lend money to, we can help raise the sustainability standards of smaller homebuilding projects in the UK.

Central to Downing's ethos is a commitment to be a "Responsible Investor". Accordingly, we have published a firm-wide Responsible Investment Policy which sets out our overall ESG objectives 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 our Property Lending practice by integrating ESG factors throughout the investment life cycle.

We support four main Sustainable Development Goals:



An overview of our property portfolio and lending strategy

Downing make loans typically of up to two years primarily to residential property developers in the UK. These tend to be smaller schemes, with an average loan size of currently just over £3 million with a loan to gross development value (LTGDV) ratio currently capped at 70% across the portfolio.

Although the UK property market is relatively well regulated from an ESG perspective; and notwithstanding the challenges our position as a lender may present, we are committed to raising ESG standards over time within the smaller end UK development sector. Of all the products that our investee companies bring to market, we acknowledge property has the longest 'shelf life' and we see this as an area of significant potential impact going forwards, particularly from an environmental and social perspective.

In line with our Responsible Investment principles, we are committed to integrating ESG considerations through the life cycle of our investments in a way that best aligns to the nature of our assets under construction. An overview of how this works in practice is provided below.

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 seek to understand ESG compliance and aspirations at both developer and project level.
- Our proprietary ESG tool is based on a tiered system so that there is both a minimum ESG standard and an aspirational set of criteria that anticipates future standards.
- ESG matters are included in investment papers, discussed throughout the decision-making process and are a mandatory agenda item at Investment Committee.

Stewardship

- We require compliance with relevant laws and regulations and encourage early adoption of emerging standards (see below).

Reporting

We report annually to the PRI and UNGC and this will be extended to the FRC on acceptance of our stewardship code application.

Exit

- On repayment of our loan we will endeavour to assess the impact of our ESG requirements on the value of the development as well as on debt security.
- Where necessary, we will communicate our findings to the borrower to be used as part of any future lending.

Review

- We review our policies and procedures regularly to ensure they remain relevant in the context of our business and the UK property market where revised building regulations and planning requirements will be needed to support the UK's commitment to Net Zero.

Integrating ESG into property lending

Behind this approach is a team of highly skilled investment professionals, that share our values and passion for responsible investing and have many years of experience in property lending. The head of the team retains ultimate responsibility for this Strategy and its implementation.

ESG integration within the Property division is twofold: covering developer performance (their overall governance performance and approach to sustainable development) and project performance (which confirms that the project meets Downing's minimum requirements and whether any best practice is being applied). Both aspects are monitored at regular intervals by the team to ensure the borrowers maintain performance after

the loan has been granted, and that the project meets the ESG standards originally discussed. Given our high level of repeat business with borrowers, we can also use our development and project checks as a way to actively engage to encourage early adoption of emerging standards as we plan for Net Zero.

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.

Material ESG factors in Property Lending

Downing initially conducted an analysis of material ESG risks based on the Sustainability Accounting Standards Board (SASB) materiality map for Real Estate. This was further refined by the property lending team to focus on residential property in the UK and anticipated changes to regulatory regimes in the next few years. Our current ESG focus in this sector is set out below.

Social

People

- Promoting high labour and health & safety standards across our borrowers
- ESG investment training programme for our own staff

Market & Products

- Ensuring high quality design and development that delivers quality properties which contribute to enhanced borrower reputation
- Applying robust safety standards in construction
- Use of sustainability and efficiency standards in development

Communities

- Considering local aspects and needs as part of each project including transport, employment and procurement
- Protecting biodiversity and making efficient use of land

Governance

Board & organisational structure

- Driving accountability and independence on boards of companies where our investors are shareholders, whether directly or indirectly

Risk Management & Compliance

- Strict and robust approach to risk management, including ESG factors
- Requiring compliance with relevant policy and regulatory requirements at all times
- Promoting adoption of higher standards by borrowers in participation of changes to building regulations and planning rules

Business Ethics & Transparency

- Transparent reporting on ESG performance in both annual fund/company accounts and regular investor reporting
- Strong conflict of interest policies and a committee with an independent Chair

Environmental

Climate Change

- The need to build resilient assets through consideration of climate change adaptation requirements

Resource Efficiency

- Encouraging the use of water and energy efficient fixtures and fittings

Impacts & Pollution

- Preventing negative environmental impacts, including pollution and waste related, through active management of identified risks
- Meeting planning requirements in relation to mitigation of environmental impacts



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