

Downing Fund Managers

ESG Strategy

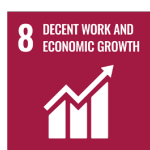
Downing

As active investors in a wide range of businesses that include smaller listed companies, our aim is to support our investees through their own ESG journey, that leads them to a long-term sustainable business model, with good levels of disclosure particularly when it comes to climate-related risk.

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 across Downing Fund Managers.

We support four main Sustainable Development Goals:



Our individual funds and approach to ESG

Downing Fund Managers (DFM) encompasses a number of funds that invest in listed equities, with each fund manager owning their own unique investment mandate whilst being aligned to the firm's overall investment strategy and ethos.

With the exception of the VT Global Opportunities Fund, all funds are high conviction and research intensive, with many of the fund managers taking a private equity approach to public equity: the number of holdings is relatively small and our fund managers invest for the long-term as active managers.

For this reason, we do not adopt a blanket negative screening approach across DFM: rather we may take holdings in businesses with known ESG risks provided we feel those risks are reflected in the current valuation and that we have sufficient visibility and 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.

A brief summary of each of our funds and their approach to investment is provided in the table below.

Fund	Manager(s)	Investment Approach	No. Holdings	ESG approach
VT Downing Unique Opportunities Fund	Rosemary Banyard	<ul style="list-style-type: none"> Focused on investing in companies capable of delivering superior returns on equity Disciplined due diligence policy results in a high-conviction investment strategy 	A concentrated portfolio of 25-40 holdings, predominantly UK	Integration & negative screening of gambling, tobacco, and direct investments in fossil fuels
Downing Strategic Micro-Cap Investment Trust	Judith MacKenzie & Nick Hawthorn	<ul style="list-style-type: none"> Private equity approach to investing in listed micro-cap securities (<£150m) High conviction, value style using engagement & active management to drive returns 	Focused portfolio of 12 -18 positions	Integration & negative screening for weapons, tobacco and human rights issues
VT Downing European Unconstrained Income Fund	Mike Clements & Pras Jeyanandhan	<ul style="list-style-type: none"> Disciplined and patient approach Fundamental research-driven process Long-term investors 	Typically 30-40 quality businesses, at attractive valuations	Integration & negative screening for tobacco, weapons, gambling and human rights issues
VT Downing Monthly Income Fund	Josh McCathie	<ul style="list-style-type: none"> Value-led investing, aiming to improve returns and reduce downside risk including ESG Disciplined due diligence policy which drives a high-conviction investment strategy 	30-50 companies that are listed on a UK stock exchange	Integration & negative screening for weapons, tobacco and human rights issues
Downing AIM Estate Planning Service	Judith MacKenzie & Nick Hawthorn	<ul style="list-style-type: none"> Investing in listed companies that qualify for Business Relief Strategic, long-term positions of 5% or higher Private equity approach to public equity 	25-40 companies	Integration & negative screening of weapons, tobacco and human rights issues
VT Downing Global Investors Fund	Anthony Eaton	<ul style="list-style-type: none"> Top-down asset allocation model Taking equity stakes in businesses, wherever they are located, that supply the growing global consumer-class population 	Typically invested in around 200 positions	N/A - Thematic fund

ESG integration throughout the investment life cycle



Setting fund mandates

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

Pre-investment

- We review ESG research provided by Sustainalytics or (for those companies with no Sustainalytics rating) we conduct our own research based on a proprietary questionnaire.
- Companies with high ESG risk ratings are subject to further scrutiny on material aspects.
- Material risks are discussed with fund managers in workshops.

Stewardship

- We develop bespoke ESG Engagement Plans for each holding, focusing on specific material ESG matters for the business.
- We directly engage with management teams to promote ESG practices and disclosures.
- Where engagement is not sufficient to instigate change, we use our voting rights in line with our Voting & Engagement Policy.

Reporting (internal & external)

- A controversies monitor provides alerts to fund managers, the Head of Downing Fund Managers and our ESG team and is a key part of our internal monitoring and 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 will publish a dedicated voting & engagement report annually.
- Increasingly our investor updates include disclosure of our ESG engagement efforts.

Exit

- Our listed funds are evergreen, and so we do not exit funds, however when we divest an individual holding we review how successful our engagement was in the interests of continuous improvement.

Review

- We review our overall approach periodically to ensure it remains relevant in the context of the listed equity market and client needs.
- A material ESG event would also trigger a review of policy and processes.

Material ESG factors in listed equities



Social

- **Stakeholder mapping and engagement** throughout the investment lifecycle
- **Employee care and retention** including fair contracts
- **Market and supply chain accountability**
- **ESG investment training** programme for Downing LLP staff



Governance

- **Board structure** in particular board diversity (including skillset), composition and remuneration
- **Risk management and audit** including climate risks
- **Business ethics policies** (including Anti Bribery and Corruption, Anti Money Laundering, etc) and whistleblowing processes
- **Transparency** on Downing LLP's voting record and rationale



Environmental

- **Climate-related disclosures** in line with TCFD guidelines from 2021
- **Environmental impact and performance** - with high standards of disclosure

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WE SUPPORT



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