Downing

Downing LLP

UK Stewardship Code

Signatory Re-Application To The Financial Reporting Council

October 2023

FCA Firm Reference Number: 545025

Contents

Introduction

31st October 2023

Dear FRC,

We were delighted to be accepted as signatories to the UK Stewardship Code 2020 given the high standard and recognition that it sets globally.

Today we are now pleased to share our third annual submission to yourselves, reporting on our many stewardship activities since November 2022.

This period of reflection has certainly been insightful and informative, showing the progress we have made and planning the future of our strategies. We appreciate the chance to reflect that completing our submission to yourselves presents. We also appreciate the feedback you provided in your outcome letter in February; you should be able to see this incorporated below.

Another guiding point is that earlier this year we became a public supporter of the International Corporate Governance Network's Global Stewardship Principles. In particular number seven was considered in creating this report, with meaningfulness on transparency and disclosure.

In this report, you will read qualitative and quantitative detail about the Responsible Investment approach and strategy that Downing has integrated across all asset classes, and the importance of understanding and then actually delivering upon clients' required outcomes, as well as some real engagement, policy advocacy, collaboration and voting examples.

We look forward to continuing to be a signatory to the Code, and demonstrating the importance of investor voice.

Approval by Governing Body
Downing LLP's Stewardship Code Report 2023 for the reporting period 1st November 2022 to 31st October 2023 has been reviewed and approved on 31st October 2023. The report is signed below by Tony McGing, Chief Executive Officer of Downing LLP, on behalf of the Executive Committee, and shall be published on the Responsible Investment section of Downing website.

T. McGing

Tony McGing, CEO

Roger Lewis

Roger Lewis, Head of RI

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

Who We Are

Our **mission is to make investment more rewarding**. Being profitable for our investors, supportive to the businesses we fund and ultimately rewarding for society. With 35 years of history, Downing LLP is a client-focused investment manager with retail, wholesale and institutional clients mostly in the UK.

We offer a differentiated portfolio of high conviction products from specialist investment and client teams. Strategies are categorised into listed equity (representing approximately one quarter of all assets) and private markets (three quarters) which covers energy & infrastructure, property finance & specialist lending, healthcare ventures and development capital.

Downing is based in London with £1.9bn of assets under management. As a partnership, we work for the benefit of our members; as a certified B Corp, we strive to have a broader positive impact and show regard to all our stakeholders through Responsible Investment.

Commitment To Responsible Investment

We have a five-year strategy for Responsible Investment. Its vision is 'Investing for Return. Caring about the World'. Its implementation is achieved by applying three tools to the material environmental, social and governance factors of an investment:

1. Integration to all investment decisions
2. Active ownership and engagement to achieve actual positive outcomes
3. Reporting, transparency and wider industry advocacy & participation

We were delighted to be accepted by the UK Financial Reporting Council as a signatory to the 2020 Code in September 2021, and to remain a signatory in February 2023. We applaud the high standards this Code sets for active ownership and believe that alongside the (world's first) Corporate Governance Code, it positions the UK as a leading, progressive financial centre.

Beyond just being a signatory, Downing are active participants – joining working groups, signing letters and contributing to consultations – in these industry associations.

An important development over 2023 is the Downing Head of Responsible Investment (RI) was appointed as a member of the ICGN **Global Stewardship Committee** (release: [ICGN Global Stewardship Committee | ICGN]). This provides an opportunity to share the comprehensive Principles and approaches from the UK Code with global colleagues (Japan, Canada, USA and Europe), and to learn from their Codes and approaches to shareholder rights, company monitoring and voting. Recent tasks have included looking at stewardship in private equity and preparing for revisions to the Global Stewardship Principles.

Approach To Sustainability And Stewardship

We recognise that environmental, social and governance factors are material in our business and investment activities, and they can preserve and enhance returns for our investors.

Three key priorities centre around:

1. **Climate change mitigation**, through investments in renewable energy in order to reduce greenhouse gas emissions;
2. Robust **governance** and well-run investments with effective, independent and diverse boards providing direction and management oversight; and
3. As a B Corp, acting with common **decency** as an employer, community member and investor.

And surrounding all this is active ownership and dialogues about sustainability risk and opportunity.

We consider ESG factors during each stage of our investment process from initial selection and evaluation through to active ownership of all portfolio companies. This uses a set of three tools.

First, integrating material factors to all investment decisions. Second, active ownership and engagement to achieve actual positive outcomes. A longer term agenda with management teams is set based on results from the first stage. And third, reporting, transparency and wider industry advocacy & participation.

Culture is a significant part of our approach. Despite having grown to almost 200 employees, our culture remains entrepreneurial. We encourage our people to be 'bold and ambitious', but to also recognise that our business does not operate in isolation. We therefore 'support each other'. We also encourage 'being straightforward' and avoiding complexity. All these point to investment and engagement decisions made based on a broad understanding of all the material risks and opportunities, including ESG integration.

Investment Strategies

Our purpose and process are applied to investment and engagement activity in all assets below. First, identification of material factors like biodiversity impacts and embodied carbon (materials, transport & waste), then preliminary investment evaluation for all deals, followed by a detailed investment evaluation for those that proceed. Risks and opportunities for positive outcomes identified are part of our active ownership during the investment's life, with KPIs and reporting as well (see Principle 7 for full detail).

Downing Fund Managers

Established in 2010, DFM is a boutique of funds and portfolio services that actively invest in listed equity with over £0.5bn under management. Funds comprise:

- Downing Strategic Micro-Cap Investment Trust, which proactively engages and works alongside management to realise value and drive returns, typically over a three to seven-year time horizon
- Downing Small & Mid-Cap Income Fund, a focused 30-50 stock portfolio of small and mid-cap equities listed in the UK, specifically outside of the FTSE 100
- Downing Unique Opportunities Fund, investing in 25-40 UK mid and small-cap companies that can achieve above average returns on equity from their competitive advantage
- Downing Global Investors Fund, investing thematically in ~200 positions
- Downing European Unconstrained Income Fund, holding 30-40 high-quality companies across the European market caps, focusing on contrarian opportunities
- Downing Aim Estate Planning Service, a portfolio of 25–35 Business Property Relief qualifying AIM stocks

Engagement strategy: active ownership through direct dialogue and careful voting.

We note feedback from the FRC on our last submission on the use of **external managers**, and highlight:

- The Downing Listed Infrastructure Income Fund has been closed and positions are being exited
- A new range of multi manager funds are launching over Q4 2023. These cover approximately 30 managers and varied strategies, including some sustainability focussed. The ESG process covers sending a tailored scorecard, with three pillars: corporate, investment and engagement. This is in progress now. Responses will be scored and engagement discussions with the managers to understand their approaches and ways to improve against the pillars will take place into 2024. We will provide a comprehensive update of outcomes in our next submission for the Stewardship Code

Energy and Infrastructure

Renewable power generation is proven and core in emissions reduction and energy security scenarios, and without which decarbonisation and net zero emissions cannot be achieved. Downing provides access to operating, construction ready and development stage solar, wind, hydro and biomass assets across multiple geographies. Also battery storage investments, to complement the intermittency of renewables.

Portfolios include the Downing Renewables & Infrastructure Trust (DORE) and Bagnall Energy Limited. DORE invests in a diversified portfolio of renewable energy and infrastructure projects to achieve stable income. Assets are held long term, which enables an active approach. The trust was awarded the Green Economy mark on listing at the London Stock Exchange in December 2020, and is also labelled as Article 9 under the EU Sustainable Finance Disclosure Regulation. The Bagnall portfolio consists of ~40 subsidiary companies offering renewable energy generation and energy infrastructure solutions.

Engagement strategy: regular dialogue with Operations and Maintenance providers.

Development Capital

Downing invests in real estate backed companies (trading businesses operating from freehold properties) in varied sectors: Data Centres, Education, Residential Care Homes, Hotels, Property Development, Pubs, Specialist Education, Specialist Living and Wedding Venues. We look to partner with management teams whose ethos, beliefs and interests are aligned to ours, including for environmental and societal outcomes. A goal is enabling investees to realise their growth plans by providing flexible solutions for their capital needs.

Engagement strategy: assisting management teams with our sector knowledge and experience in building businesses, including ESG factors, to support enhanced value creation.

Specialist Lending (Property Finance)

Downing provides loans to residential property – houses and flats – developers in the UK, typically smaller sized borrowers and developments as loans are categorised into less than £2m, £2 to £7m and above £7m.

A major development since our last submission to the FRC has been to financially reward borrowers for embracing sustainability. Under a framework that references the Loan Market Association's **Sustainability Linked Loan** Principles, our borrowers can receive a reduction in their loan rate of up to 1%. This is based on ESG scorecards completed at loan origination to inform the investment decision, communicating results as part of borrower engagement and then an external sustainability surveyor validating the ESG score and any improvement to give a final score, which impacts the borrower's financial cost. An example of this type of engagement is provided below.

The SLL framework includes keeping pace with changing building regulations and planning requirements, including net environmental gain and contributing to the UK's greening finance, net zero and energy security strategies. By working in close partnership with our institutional funders and progressively increasing our expectations with developers (the percentage of SLLs out of total loans will increase each year, up to at least 75%), we believe Downing can help raise the standards of the smaller homebuilding projects.

A Build to Rent strategy is launching over H2 2023, where engagement – to be reported in future – will be with counterparties and tenants.

Engagement strategy: regular sustainability dialogue with borrowers for residential property developments, and joint venture counterparties for Build to Rent.

Healthcare Ventures
Medical devices or technology where Downing will co-invest with other venture capital firms where we can actively collaborate both pre investment in due diligence, risk assessment and pricing, through to hands on ownership and ultimately exit. We also seek to work with talented CEOs, entrepreneurs and leaders of businesses that we understand and believe in, supporting companies that have a strong management team, with significant growth potential and a business model. All this is a foundation for engagement.

Note the Healthcare Venture startegy is presently fund-raising and with no new investments in the reporting period.

Self Reflection

We see a proactive dialogue with investees as a core way to preserve, or enhance, value and achieve positive sustainability outcomes. And therefore, this is a core way to achieve our fiduciary duties of loyalty and care.

Through our total investment, engagement and voting activity in the last twelve months, we believe we have been effective in serving the best interests of our clients, in accordance with their mandates.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Governance Through Committees

At the highest level, governance for all activity, including Responsible Investment, is provided by the Executive Committee. This oversees Downing LLP's overall performance and delivery, focusing on leadership, management, and direction, ensuring an effective prioritisation of resources. This also acts as a Remuneration Committee. Members are CEO, CFO, COO, Head of Listed Equity Investments, Head of Private Markets, Head of HR and the founder and Chairman.

Under the Executive Committee, governance for Responsible Investment is provided via a quarterly **ESG Committee**. Chaired by the CEO and run by the Head of RI, its objective is direction and oversight of the ESG strategy, governance of investment-level implementation plans, ensuring compliance with all regulatory requirements and signatory obligations, and discussion and discovery for all sustainability developments across industry and Downing LLP. In practice this includes decisions, approvals, director briefings (e.g. regulatory developments and climate change) and risks.

Sub to the ESG Committee is a bi-monthly client and investment ESG working group. This brings together:

- RI team – market developments and initiatives
- Client teams – what seeing at peers or hearing in discussions on client expectations
- Investment teams – how integrating ESG, examples and what is needed

Decisions are made by fund managers for listed equity, considering outputs from the RI team. For private markets, Investment Committees are the decision-making forum. Since our last submission, the IC process has been further refined. Review and analysis of ESG results, and, importantly, actions for future improvement is delegated to a sub-group that has the expertise and time to focus. Lead by the head of RI, this reviews and challenges ESG scorecards, and agrees a final score and actions. Its signature is added to the scorecard, forming part of the overall deal approval where IC minutes are signed by the head of private markets.

Other Committees include: Valuation, Partners, People, Digital, Enterprise Risk Management, Risk and Oversight, Product Governance & Distribution, Customer and Conflicts Committee. ESG is discussed at these as required.

Governance Through Policies

Our approach is formalised in a tiered **ESG Policy Architecture**, whereby all are updated annually and made publicly available on our website. The groupwide beliefs above and certain policies and principles apply across Downing. And then at investment-team level, detailed ESG policies allow integration that considers asset-class idiosyncrasies for ESG as well as their risk and return.

Further detail on policies, including links, is in Principle 5 and further detail on the governance for voting at DFM in Principle 12.

Resources For Stewardship

In order to achieve our corporate mission and our ESG strategy, resources have been carefully considered.

A **manifesto** for the RI team has been created during this reporting period. We believe this supports stewardship, and this includes:

Colleagues will:
Be encouraged to participate in decisions, support each other and be empowered to do their roles
Welcome ideas, experiences and suggestions for ESG from all people – and never say 'we've always done it this way'
Recognise that relationships and networks are important
Stay ahead of all sectoral developments (regulatory and other) so we are not caught by surprise when something new emerges

A **Head of** function is responsible for Responsible Investment across Downing, including the three areas of ESG (investment integration, stewardship & reporting) for all investment and client teams. The incumbent has 18 years financial services experience, half of which are sustainability and responsible investment. The expertise provided for all elements of ESG includes direction, governance, data, engagement, performance, reporting and industry participation.

Support to the Head is provided by an **RI Analyst** (early career level). This role involves the identification and management of potential ESG risks of transactions, and tracking & contributing to engagement activities. There is also resource for internal engagement on sustainability, including with staff and our landlords & suppliers.

In addition to these dedicated resources, integration of ESG factors into investment and engagement activity is undertaken by investment professionals. Interaction with the RI team includes an independent opinion on a deal or enhanced analysis using sector specific ESG data, as well as joint engagement discussions with investees.

An internal network of **Sustainability Champions** has been live since October 2022, responsible for:

- Ensuring their team integrates sustainability into their tasks, per applicable policies. This includes stewardship
- Defining core pillars around which Downing's sustainability strategy can be built, including contributing to growth, reducing costs, and mitigating risks. This includes stewardship
- Championing and implementing the company's sustainability strategy, ensuring alignment with our investment categories and B Corp values
- Active efforts to improve Downing's B Corp score
- Engage with stakeholders to build trust and understand sustainability expectations and concerns
- Monitor and report on the progress of sustainability initiatives to the Executive Committee and the ESG Committee. This includes stewardship
- Collaborate with the marketing team to communicate our sustainability achievements to clients and the public
- Provide input as directed by the Chair to firm-level reporting requirements, including B Corp Impact Report and the Sustainability Report annually

As above, the Downing Executive Committee has governance and oversight for Responsible Investment. This includes COO accountability for successful implementation of ESG best practices and standards and investment team heads (Partner level) responsible for both P&L and the responsible investment strategy of their business. This responsibility is discharged via Investment Committees in Private Markets where ESG risks are considered alongside deal details, and via pre-investment research in listed equity.

For **developing colleagues** professionally, training budget and study leave are available to all staff. For sustainability specifically, this includes courses run by the UNPRI Academy, the International Corporate Governance Network and the CFA Level 4 Certificate in Investment Management (ESG). All are suitable for investment managers, fund managers, sales teams and product designers.

The RI team provide regular, ongoing training as well. This is available to any colleague and can be specific to a function integrating an ESG factor, or thematic like the UN Sustainable Development Goals and the basics of sustainability, which are defined as thinking of future generations and the trade-offs between the three types of capital: human, produced and natural.

We believe that **diversity** of thought, background and experience (which often, but not always, means diversity of gender and ethnicity) results in better judgments and decision making, from board to junior level. In turn, this can result in better performance when there is a diverse array of all of human attributes and perspectives (D), fairness instead of barriers (E) and employees that feel safe and respected (I). Diversity, equity and inclusion will be a focus into 2024, both as a subject for engagement with investees and looking inwards to Downing with our own assessments and discussions on the subject. We will report more in our next submission.

Incentivisation

All key staff have ESG performance indicators in their **objectives and compensation**. This is to ensure integration to their varied roles, active ownership and supporting wider reporting & transparency. These are addressed through engagement with line managers and employees during the performance objective setting period and recognise that ESG outcomes can take longer than one year to achieve.

Furthermore, conduct and compliance serve an important role in remuneration for all employees. Note our People team are currently working to strengthen the connection between reward and conduct.

In addition to taking account of applicable laws, regulations and corporate governance standards, we apply the SFDR expectations of remuneration policies to incentives as a more general principle: *"Providing transparency and ensuring consideration in relation to the integration of sustainability risks to investment and engagement processes."*

Self Reflection

Are policies, whether stewardship related or other, actually followed by staff in any organisation? The recent $19m DWS fine when ESG policies were not followed comes to mind. We can say with confidence that staff have attested to reading and following our Responsible Investment policies; there have been no breaches in this period; and committees are functioning per their terms. We also see further evidence in notes and actions from stewardship discussions. We can say there will always be continuing developments and enhancements in integrating and incorporating external developments, such as further ESG data / platforms if required for investment or sustainability upside.

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Overview Of Managing Conflicts

Downing's Conflict of Interest Policy (reviewed annually, last in September 2023 applies to the firm and all its employees (including contractors), as well as all of the firm's activities and processes, including stewardship. The Head of RI was appointed to the Conflicts Committee in July 2023. The Policy has been approved through the policy approval framework, by the Exco. Non-compliance with the conflicts of interest policy may result in disciplinary outcomes, depending on the nature of non-compliance and actions taken to address this.

Downing's business involves staff acting as agents for clients when advising or making decisions in financial markets on their behalf. Confidence in integrity and acting on their behalf is critical, and therefore in investment or engagement decisions, or providing products to clients, Downing must always act in clients' best interests and put these first. Downing has an obligation to treat all clients fairly, which may give rise to the need to manage conflicts of interest between different groups of clients for whom we act as an agent.

The objective of the Policy is to ensure due regard to the interests of each client (retail, professional or eligible counterparty) and manage any conflicts of interest fairly and effectively. A main principle includes the prevention or management of any conflicts of interest linked to stewardship. These apply when Downing has, or may have, a conflict between:

- The firm and the duty owed to our clients;
- Firms or affiliates connected to Downing and the duty owed to our clients; and
- The duties owed to one client and another.

Measures are in place to **identify, prevent** or appropriately manage actual or potential conflicts:

- A conflicts management processes: insider list internal systems used by business units and the register of outside business interests
- Controls over the handling and flow of confidential and inside information
- General disclosure of the possibility of material interests to clients at an early stage of the relationship
- Conflicts Committee to consider proposals or situations which could generate conflicts of interest. The Committee determines whether a conflict is being, or will be, appropriately managed, and any action required. The Committee may also periodically monitor conflicts it has previously reviewed to determine if controls are still adequate

Downing has in place secure and confidential systems, to record material information to assist in the identification and management of potential conflicts of interest. The Compliance team is responsible for the maintenance of a Restricted List. This can include occasions when, during an engagement dialogue, we become aware of material, non-public information about a company. Here, the stock is placed on the restricted trading list and we ensure compliance with legal requirements on confidentiality and record keeping.

The rules around personal account dealing impose restrictions on transaction in securities and derivatives made by Downing's employees (and connected persons) for their own account or for the account of third parties by way of power of attorney or legal representation. Permission will not be given to deal in a company's securities or derivatives if a company is on the insider list, or if dealing would prejudice client interests.

Downing's approach to managing conflicts of interest may include the following:

- Management: Internal controls and monitoring to assist with complying with the mitigation technique or relevant regulatory requirement

- Termination / avoidance: Some conflicts of interest may have such a potential impact on the firm or its clients that the only way to adequately manage them is to avoid them entirely

- Disclosure: Where the conflict of interest cannot be managed through our internal controls with reasonable confidence, that the risk of damage to the client(s) interest will be prevented, then the conflict is disclosed (note this is a measure of last resort)

In line with the FCA Systems and Controls handbook (rule SYSC 10.1.6.R), Downing maintains the conflicts of interest register to enable it to communicate, prevent or manage and monitor conflicts of interest that arise. Compliance is required to remain strictly neutral when advising on the management of conflicts and is represented on, and can raise issues directly to, the Conflicts Committee. The Conflicts of Interest Policy is provided to all of our clients and is publicly available on our website.

Conflicts of interest training is also important. Each employee has a duty to follow established policies and processes in order to mitigate the conflict and / or escalate to their manager, Legal, Compliance, the Conflicts of Interest Committee (or a member). Members of other committees must consider potential conflicts and their mitigation as part of their role as a committee member. Training is provided at least annually to all Downing staff and associates.

Conflicts In Stewardship

Applying all these concepts specifically to stewardship, conflicts my arise where:

- Downing carries on the same or similar business as the client (ie, we invest in the finance sector);
- Where Downing has a financial incentive to favour the interests of one client, eg, by allocating all stewardship resource to one particular outcome;
- Material, non-public information is gained during a stewardship discussion with an investee company's management team (see the restricted list above);
- Downing holds a proxy for a client and votes the shares in a way that reflects Downing's interests or that of another client, rather than those of the first client;
- Voting upon the appointment of a company director with whom Downing has an existing commercial or other significant relationship;
- Investment managers have differing views and priorities for engagement; and
- The views of fund managers may differ between each other, or with the RI team. A negative stance from the RI team may impact other interactions with the company.

One example of a situation where a conflict could potentially arise in relation to stewardship is where we have employees appointed as directors of portfolio companies. A director of a company has statutory duties requiring them to act in the best interests of the company. The interests of a portfolio company and the interests of our clients on a particular issue (for example, climate commitments that may come at a significant cost to the company) may not always align. The monitoring and escalation framework described in this section would be used to identify such situations. See the private markets example in Principle 12 for more on this.

Stewardship and investment conflicts are handled according to the Conflict of Interest Policy and are no different to any other conflict (note ESG is identified as a specific source of conflict within this Policy). Our Conflicts of Interest Committee is responsible for ensuring that steps are taken to adequately manage such a conflict. Oversight for all stewardship activity is also included in ESG and Voting & Engagement Policies. Downing will take all steps to identify, prevent and mitigate the conflict. For example:

- The Investment Committee chair is responsible for ensuring that due consideration has been given to potential conflicts of interest relating to individuals or funds in all transactions. We acknowledge that some Directors are involved in more than one fund and may be potentially conflicted themselves. Prior to deal completion, it is necessary to obtain written approvals from all of the participating funds
- When a conflict arises between funds and / or Downing, the Fund's Board and the Conflicts Committee reviews the conflict and approves the next steps for resolution. The investment team provide notification of the conflict, which is documented in the Investment Paper. This explains explicitly the nature of the conflict and why Downing believes all parties are being served

Instance: Actual conflict related to stewardship identified and managed

An instance occurred when a private markets Investment Committee member held interests in an underlying portfolio company. Due to the influence and conflict, the member is restricted from voting, advising or engagement. The conflict was documented by the Conflicts Committee.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

External Systemic Risk And Macro Stewardship

There certainly has been growing focus on **market-wide risks** that cannot easily be diversified away. Geopolitics, climate and extreme weather, societal inequalities, nuclear weapons are just a small handful. With this in mind, we see policy advocacy and promoting a well-functioning financial system as core investor duties. We approach this advocacy by engaging through our memberships and collaborating with peer investors to respond to consultations, speak with policymakers and stay informed. Activities and outcomes to report include:

Counterparty	Activity	Outcome
Quoted Companies Alliance	Working group to update the QCA Governance Code (applicable to UK small caps)	Updates to the 2018 version of the Code are ready for approval - expected Q4 '23 or Q1 '24
CDP	Co-signing an investor letter to the EU Commissioner to push for ambitious European Sustainability Reporting Standards vs watering down	Being debated by EU Parliament and Council (noting launch date of 1st January 2024)
UKSIF	Open letter to Secretary of State, Dept for Energy Security and Net Zero, signed by multiple investors to support and provide recommendations for UK Energy Bill	Prompting renewable power, though this has been superseded by events around net zero since Q2 '23
ICGN	Joining multiple investors, as users of data, in signing against the risk of weakening Corporate Sustainability Reporting Directive for large euro corporates	Being debated by EU Parliament and Council
UKSIF / FCA	Roundtable discussions to formulate a universal investor view to the FCA Vote Reporting Table consultation	Much support and agreement on the benefits of publicly reporting votes. Update from the regulator is expected in Q4 '23
UKSIF	Roundtable discussions to create insights for all political parties on UK real estate ahead of next year's election	Recommendation that UKSIF can share in discussions on decarbonising buildings, social housing, stakeholder requirements, attracting foreign capital
Treasury	Roundtable discussions to formulate a universal investor view on ESG ratings ahead of regulating	Recognition of issues in ESG data providers (conflicts, time lags, accuracy, non-audited) and suggestions for how to improve through regulation. Awaiting next steps
IIGCC	Contributing to the UK Sustainable Finance Working Group	Sub-group to the Green Technical Advisory Group, which advises HM Government (eg UK taxonomy)

A Focus On Systemic Climate Risk

Physical and transition climate risk apply to Downing as an organisation and to the assets that we invest in. For ourselves, detail on how we are identifying and responding to this systemic risk are included in our TCFD disclosure which can be found in our Sustainability Report.

We publicly support **TCFD** and where possible contribute to its consultations (as you'll see in the table above, there were none in this period). We believe companies should be making disclosures in line with TCFD and that engagement is the best approach to achieve this.

EXAMPLE: Eleven disclosures

For a UK plc that provides various services for the rail transport sector: as part of a wider engagement dialogue on greenhouse gas emissions, we have reviewed and provided an investor-perspective opinion on their first TCFD disclosure and wider sustainability report. This involved comparing to the actual recommendations of the Taskforce, and testing its decision-usefulness for investment activity.

Climate risks of investees are included in ESG scorecards for listed equity and private markets. Where a potential risk or low score is identified, the investment case is passed to the RI team for enhanced due diligence and an opinion. This is because understanding how physical risk can cause damage or increased maintenance costs (decreasing return) or the exposure of our assets to economic activities affected by the transition to a low carbon economy (or conversely opportunities from market and legal demand for renewable energy) is important.

For listed equity, enhanced due diligence uses external inputs and further research including the PRI 2 Degrees Investing Initiative climate change scenario analysis tool (to assess the impact of climate on our portfolios and for evaluating risks), the Transitions Pathway Initiative (for management quality and carbon performance; note Downing is a public supporter of TPI), and CDP (for climate disclosure data).

In Q2 2023, we initiated the collection of comprehensive emissions data to facilitate tracking and monitoring of our carbon footprint, under **Scope 3 Category 15** obligations. This data serves as a foundation in our efforts to assess and mitigate climate risks effectively, and for engagement dialogues with investees about decarbonisation.

We have updated our ESG pre-investment analysis to incorporate this emissions data. This analysis is shared with fund managers to provide insights that inform their investment decisions, particularly concerning climate-related risks. For example, the impact to financed emissions from adding a large holding in a hard-to-abate sector.

For private markets, another investment team with detailed climate integration and disclosures is the Downing Renewables & Infrastructure Trust (https://www.doretrust.com/investor-relations).

Internal Risk And Mitigation

Downing maintains a risk management function – separate to portfolio management functions – with oversight from an Enterprise Risk Committee. The function is mandated to implement and maintain adequate risk management systems to measure, manage, and monitor appropriately all risks identified as relevant to the firm and to each fund investment strategy, and risks to which the firm and each fund is, or may be, exposed.

There are two main elements to capturing and reviewing risk within Downing: The Enterprise Risk Management (ERM) Risk Framework, and the Internal Capital Adequacy and Risk Assessment Process (ICARA).

The risk function has implemented a risk framework in which each Downing department owns and oversees the risks of its business area, monitoring the industry and market impacts. The Risk and Compliance functions provide further assistance, monitoring regulatory, legal or industry news, and horizon scanning for potential issues.

The ERM Risk Profile is derived from regular Risk and Control Self-Assessments in which responsible individuals confirm their control frameworks and their ongoing assessment of the identified risks. The ERM Risk Profile and the most material risks from the Risk Register go to the board regularly for review.

This allows the board to be kept fully informed of potential risks to the business and how these risks would impact Downing and determine the course of action and treatment as required. Where material residual risks are identified, the financial impact of these risks are quantified and feed into Downing's business planning and capital management processes; these are considered when concluding the adequacy of Downing's regulatory capital.

We actively engage with our peers on many key initiatives to ensure a fair and even sector for market participants and prudent controls to promote resilience.

There are further specific risks to individual investments we have identified and that are mitigated by this approach.

- Sustained market decline (risk of a severe economic downturn and decline in asset prices)
- Failure of a critical outsourced service provider (organisational failure, or poor performance)
- Cyber threat (risk of cyberattack leading to financial or data loss)
- Failure to perform fiduciary duty (risk that we unintentionally or negligently fail to meet a professional obligation to specific clients (including fiduciary and suitability requirements)
- Specifically for Property Finance and other lending: Counterparty and credit risk (risk that clients breach covenants and do not make payments)

For listed equity, we monitor liquidity, concentrations of holdings and of investors. We perform frequent stress tests based on a variety of market conditions, including historical events and hypothetical scenarios. This is recorded formally by the Investment Risk Committee and an independent Chair quarterly.

The RI team has its own, two-layer approach for **ESG risk**, as a subset of this broader approach and managed through the same framework and interaction between both teams.

At firm level, ESG risk can be:

- The backlash on ESG in 2022-23 could lead to greater scrutiny of all asset managers
- Misrepresentation, whether accidental or intentional
- Material factors or controversies are not identified or responded to with engagement
- Downing is expelled from memberships, commitments or labels
- Missed regulatory requirements or developments
- Harm to firm from climate change
- Being screened out in an asset owner's mandate selection process

At investment-level, risk can come from ESG factors: damage from physical weather events, fines paid, sector stigmatisation, asset impairment or obsolete products.

In 2022, we established a **high ESG risk watchlist** as an essential component of stewardship, in particular for the investment-level. This is designed to provide a mechanism for identifying and addressing potential ESG concerns, such as controversies or low scores at an investee, ensuring that they receive the necessary attention and scrutiny. Its contents are reviewed by fund managers and Risk Committees, and have lead to remedial action once in the reporting period: an Indian conglomerate held derived a small percentage of revenue from short range nuclear weapons. As this was a breach of the exclusions policy (note it was held before the policy's effective date), the committee required exit. Other examples of content are global equities where a controversy like human rights or corruption exists (mitigated by collaborative engagement on the issue), or fossil fuel assets (mitigated by monitoring progress against abatement plans and targets).

Conduct

In addition to an effective risk management framework, good conduct and clarity on the expectations around it is critical to effective management of all types of risk. As an FCA regulated firm and subject to the FCA's Conduct Rules, employees have a duty to observe proper standards of market conduct.

We believe in conducting business with common decency. We do not engage in corrupt practices and abide by strict guidelines governing the acceptance of gifts and the disclosure of potential conflicts of interest (as per the previous Principle). We are opposed to slavery and human trafficking (see our statement here: https://www.downing.co.uk/modern-slavery-statement). In the countries in which we operate, we abide by local laws and regulations. We value all colleagues, treat each other fairly and foster a culture of diversity and inclusion.

We place significant focus on employee integrity and good conduct which is incorporated into our appraisal process including an assessment of displayed behaviours.

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

Policy Reflections

Three **polices** are relevant to this Stewardship Code submission:

1. Downing responsible investment commits us to engaging for real outcomes: 6486d6bd1b809d25781b287d_20221020 Tier 2 ESG Policy 2022 v02.pdf (website-files.com), see page 6

2. Downing Fund Managers V&E contains guidance throughout: 64c3de4ee6ad572d19011c3a_Voting and engagement policy.pdf (website-files.com). In Principle 7 below, we share latest developments in our thinking and approach to stewardship (see Evolving Stewardship), as formalised in this policy

3. Private Markets responsible investment has specific guidance for how to be an active owner for each asset class, given its idiosyncrasies: 64edb998917a1cac4d0dca98_ESG013_Private_Markets_Responsible_Investment_Policy_Aug_2023.pdf (website-files.com), see pages 6-8

To provide assurance that these policies' contents are being followed, day-to-day oversight is provided by the RI team sitting and working closely with investment teams to integrate ESG into their activity.

A **Compliance Monitoring Programme** is underway over Q4 2023 that will look for actual evidence (eg completed scorecards and IC minutes) and compare to policies. Recommendations from this will be implemented as we head into 2024.

Annual policy **updates** are coming due now. For stewardship, these will consider indicators from the recently completed reporting to UNPRI that identified areas to improve, like hard guidelines for the political advocacy described in Principle 4 (see External Systemic Risk And Macro Stewardship) and for controversial votes. And other emerging trends and best practices will be incorporated, such as post engagement letters to formally document what was agreed with the investee and potential minimum expectations that we make public.

We believe this assurance enables the effectiveness of our stewardship activities.

There is a policy approval process. Policies are developed within the business by internal owners, and then reviewed and challenged internally. Review is then provided by Compliance (as with any policy implemented) and then ESG Committee approval, followed by governance of the content.

This aligns to our view that all policies and processes, including those for ESG and stewardship, need to be continually (ie, at least annually) reviewed to assess their effectiveness and be kept current as external operating environments for all evolves.

The challenge for a diverse business ensuring we focus our efforts in the areas where we can be most effective in protecting and enhancing value. To successfully achieve this, we ensure our policies and processes are lean, efficient and support our range of investments. As introduced in Principle 2, the ESG Policy Architecture enables this. This ensures that our stewardship in each asset class is best placed to ensure value protection and creation, including to our approach on negative screening, as this varies significantly.

Specifically, effective stewardship is achieved by the Policy clearly outlining:
- Steps involved – themes, investees, type of engagement
- Process – monitoring, milestones
- Resources available – engagement tracker, staff

The **DFM Voting & Engagement Policy** applies best practice stewardship principles to our specific activity. This policy is reviewed and updated annually – in progress presently (Q4 2023). We updated this Policy to further align with our commitment to responsible stewardship: this incorporates a range of guiding frameworks that shape and inform our stewardship activities like QCA (Quoted Companies Alliance) Code, UK Stewardship Code, ICGN GSP (International Corporate Governance Network Global Stewardship Principles) and UN PRI (United Nations Principles for Responsible Investment). It also shows the position and voting guidelines on Non-Executive Directors, Investor Collaborations, Climate Change and Shareholder rights.

Internal assurance of the Voting & Engagement Policy, and stewardship more broadly, is provided by a combination of DFM staff, the RI team and Downing Exco. This submission to the FRC has been prepared by a working group with inputs from across Downing, drawing on the resources of the teams for certain principles and subject matter experts. It has been reviewed and challenged by the Exco governing body, and feedback provided / incorporated.

Further details on processes to integrate ESG to investment (including scorecards) and engagement (include best practice principles and a dedicated tracker) are in Principle 7 (see This Is How).

To assess the effectiveness of our activities, we have reflected on the content shared with the FRC in our 2022 report and highlight the goals we set and have achieved since then:

- We published our first ever sustainability report;
- We were again accepted as a signatory to the FRC Stewardship Code in February;
- We are working to improve our initial B Corp score;
- ESG training, from basic to advanced, is available to all staff;
- ESG strategies for individual investment teams, contextualised in their own ESG Policy; and
- We publicly support TCFD and our sustainability report has our climate disclosure.

We look forward to reporting further effectiveness in future updates.

External Assurance

This submission, also other stewardship reports and engagement more generally, is reviewed by the RI team, which is independent to investment teams, in order to provide assurance. It is through this review and challenge process coupled with the ultimate approval of the stewardship reports that we ensure that our stewardship reporting is fair, balanced and understandable.

EXAMPLE: Internal-External assurance

Downing's ESG and stewardship policies and activities are regularly reviewed internally in various forums.

For private markets, there are quarterly in portfolio reviews (eg, status of actions outstanding that require engaging with management teams).

For listed equity, there are semi-annual detailed fund reviews (eg relevant content in the engagement tracker to discuss and consider implications).

Downing recognises stewardship policies form a part of wider firm culture and fit within the context of conduct and compliance risk. Conduct and compliance risk is also reviewed annually and supported by relevant training and reference to our staff Code of Conduct and Compliance Policies.

As mentioned in our introductory letter above, enhancements also come from activities as a signatory to the UK Stewardship Code and feedback from the FRC.

We consider this internal review is adequate assurance of our stewardship and other policies, when viewed within the context of Downing's employee-ownership structure, size, culture, and the importance we attach to stewardship activity as a success factor. The board has ultimate responsibility to assure our policies, associated processes, and assess the effectiveness of our activities.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

Retail Clients

Three core **estate-planning products** offer inheritance tax relief, preservation of capital and flexibility for financial needs. Stewardship and ESG feature throughout, and are communicated in all client discussions and marketing collateral, including brochures, annual reports, factsheets and presentations.

Downing Estate Planning Service *(majority of funding for Private Markets)*	Thematic outcomes of climate change mitigation, positive societal impacts, and now sustainable property
Downing AIM Estate Planning Service *(one DFM strategy)*	ESG in investment, including companies' own business models, and then active stewardship
Downing Corporate Estate Planning Service	Investments subject to the same ESG integration to investment and engagement activity

Clients are advised by Independent Financial Advisers – with whom we also discuss ESG, including training on themes like basics, climate and stewardship – for them to be able to advise their clients.

As for any investor, the **future outcomes** that beneficiaries are saving for today are crucial to understand. For all types of clients, there are processes for getting and understanding their needs and requirements in regard to integrating ESG within their portfolios. Sales teams engage with clients and share feedback on expectations today via internal forums including working groups; also sales, investment and the RI team are continually horizon scanning for likely requirements tomorrow. Actions to then meet the clients' needs follow. We recognise that if feedback directly from clients is to be considered by all relevant functions for implementing, it needs to be judged as comprehensive, fair and balanced. Some IFAs / clients do not care for sustainability outcomes and prioritise the other benefits of estate-planning products; a small number place ESG outcomes above all else, and the majority are somewhere in between these two.

Typical investment time horizons by sector are shown below. Estate planning has a longer-term nature, where underlying beneficiaries are individuals with retirement savings. Responsible Investment itself inherently avoids short termism, such as the 2030 target for the UN SDGs or mid-century for net zero carbon. We therefore judge these time horizons to be appropriate and have a long-term perspective to investing with a philosophy and process that supports this objective.

Ventures	4-8 years
Development Capital	1-6 years
Energy & Infrastructure	5-10 years
Property	1-2 years
Listed Equity	3-7+ years

Institutional Clients

We are continuing to see examples of how sustainability is as important to asset owner clients as it is to ourselves. We maintain an **information layer** of up-to-date and accurate responses to ESG questions that clients often ask us to respond to, and proactively seek opportunities to discuss the three main areas to ESG (investment integration, engagement to achieve actual positive outcomes and reporting). It is an important focus in client meetings and reports. As is required, we have dialogue with our current and prospective clients in regard to their investment's sustainability profile and any particular ESG concerns or areas of focus.

EXAMPLE: Really understanding clients

The ESG strategy recognises clients as the most important stakeholder (the other is colleagues). We have therefore understood their beneficiary needs, including ESG factors, so that these may be implemented and communicated into the solutions we design to meet these needs:

Defined benefit pensions' focus is run-off and any funding gaps vs ESG
Defined contribution introduces the personal ESG beliefs of beneficiaries through fund selection
Insurance has clear liabilities and a tilt towards climate
ESG / founding aims are important for a family office or endowment

Responsible Investment in Client Discussions

In client meetings, focus on ESG and sustainability, including related solutions, is still only going one way. This demonstrates the increasing importance of the subject and the many client interactions have highlighted subject areas for us to focus on. Where applicable, clients' own stewardship and investment policies are considered in these discussions, and we show below how we have sought views.

Examples: Institutional Clients

1. Conversations with multiple local authority pension funds to discuss their approach to impact and place-based investing, where clear principles for community engagement as part of ESG integration are essential (given the Mansion House speech in mid-2023). If progressed, this will be an interesting, and different, engagement dialogue to report to the FRC in future.

2. Speaking to charities-focussed banks and investors to give them exposure to renewable power generation, with positive feedback on combining investment return and emissions reduction.

3. Several insurance and pension asset owners have focussed on sustainability in our specific areas of real estate debt. This is likely for diversification and positive outcomes in areas that are less common for investors but still impactful (eg UK's strategies for net zero and low carbon homes).

Examples: Retail Clients

4. A director at an international business has recognised and confirmed that they do not provide any multi-asset ESG solution to the IFA. Throughout this process, we have engaged with the director on developing this solution.

5. Road testing demand for a dark green inheritance tax planning product took place over Q3.

6. DFM continuously conducts roadshows where we present our investment philosophies and services and solicit feedback from our investors on their views on our performance. In addition, Board members of our Investment Trusts will proactively contact investors to understand their views on fund strategy and performance.

7. As part of the Professional Adviser Multi Manager events in the north of England, the new multi manager fund range was presented to over 120 IFAs, including how ESG factors complement the wider manager selection strategy in fund grading (eg, character, conviction and costs). Feedback was positive.

8. We have been engaging with one of the largest IFA network service providers in the country in recent months on our investment propositions. As part of this, we've recently presented to them on how we integrate ESG in our proposition and process, as a foundation to a wider conversation regarding the regulatory developments coming down the pipe that advisers will need to be aware of and understand. We discussed greenwashing clampdowns and sustainability disclosure requirements. The resulting interest has led to discussions about holding a specific session focussed just on helping to make the topic more accessible to advisers and, in turn, be more helpful and understanding of their client demands in this area.

9. For one FTSE listed wealth manager with whom we have a strategic partnership, discussions have involved evidencing and progressing ESG integration (policy, screening, engagement, reporting etc) such that the majority of areas now score five out of five and we have been invited to join a panel with their clients to explain some of the concepts also shown here.

10. Emissions reporting is now done for all listed equity funds. This commenced in Q2 for two reasons: joining the net zero asset managers initiative, and in response to client demand and expectations in one specific fund asking to see this data. It is now a core focus of the presentations, alongside other ESG data like fund and company scores and engagement cases.

Self-Assessment

Acting in our clients' best interests and for their required outcomes is core. Note: 'investors' can be the ultimate beneficiaries, or their advisors to whom we speak and treat just like any other client. To assess the effectiveness of our methods to understand the needs of clients:

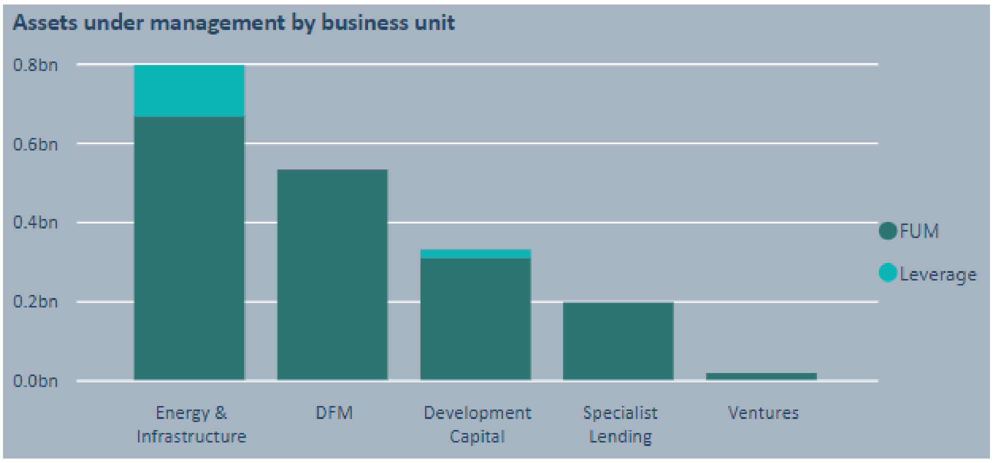
- Downing Fund Managers speak to investors at least twice a year;
- There are quarterly board meetings for oversight and governance of investments within the estate planning service, covering investing activity & performance, risks, ESG, all with a view to clients' needs;
- We conduct periodic surveys amongst advisers to better understand clients' overall objectives and expectations. We also enjoy time spent in focus groups with advisers where we can test market demand for new product ideas and gain valuable feedback on how to continuously improve our customer service;
- We use Trustpilot, where we collect satisfaction scores after contact with customer services. This was set up for our online direct-to-consumer investment platform. As at September 2023, we were scored **4.8 out of 5**; and
- There is a complaints procedure in place to ensure that all complaints are handled fairly, promptly and impartially. We investigate all complaints fully, ensuring that all concerns are addressed, and that investigations are undertaken by someone of the appropriate seniority. As an FCA regulated firm, we have a full complaints process, overseen by Downing Compliance.

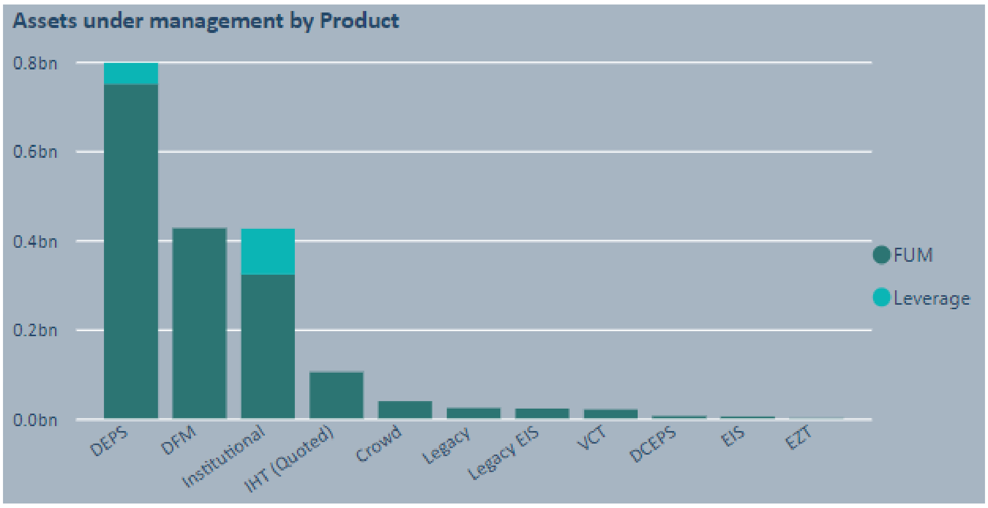
These all help to ensure alignment between our approaches and clients' positions, and efficient ways to manage the most material risks and opportunities in a way that is proportionate to our holding given that our level of influence, and resourcing, can vary significantly between assets.

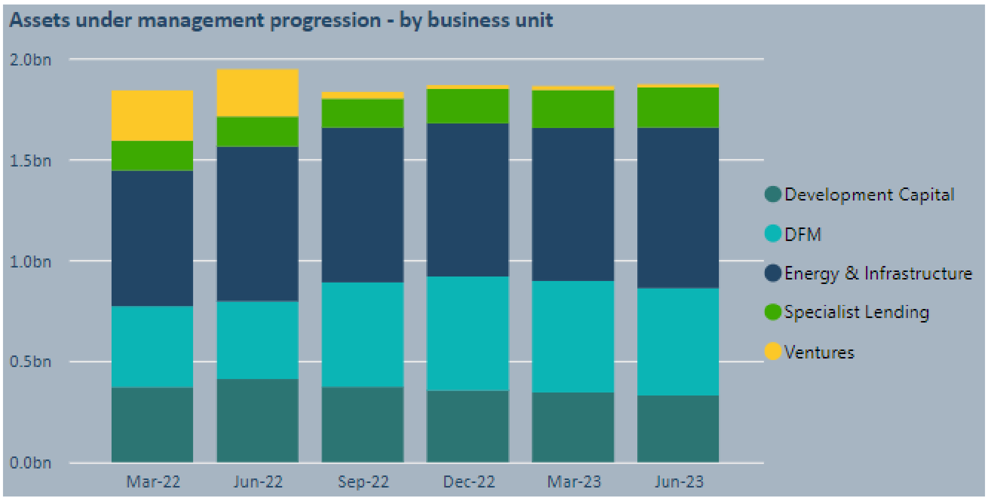
Through our investment, engagement and reporting, we believe we have been effective in serving the best interests of our clients, in accordance with their mandates.

Assets Under Management

As at 30th June 2023, assets under management were **£1.9bn**. This is an FRC Signatory Category of small asset manager. We present below charts that summarise this data by investment class, product, over time and by sector. This last one shows the variety of outcomes that relate to sustainability risk and opportunity that we are able to achieve by investing in diverse sectors.



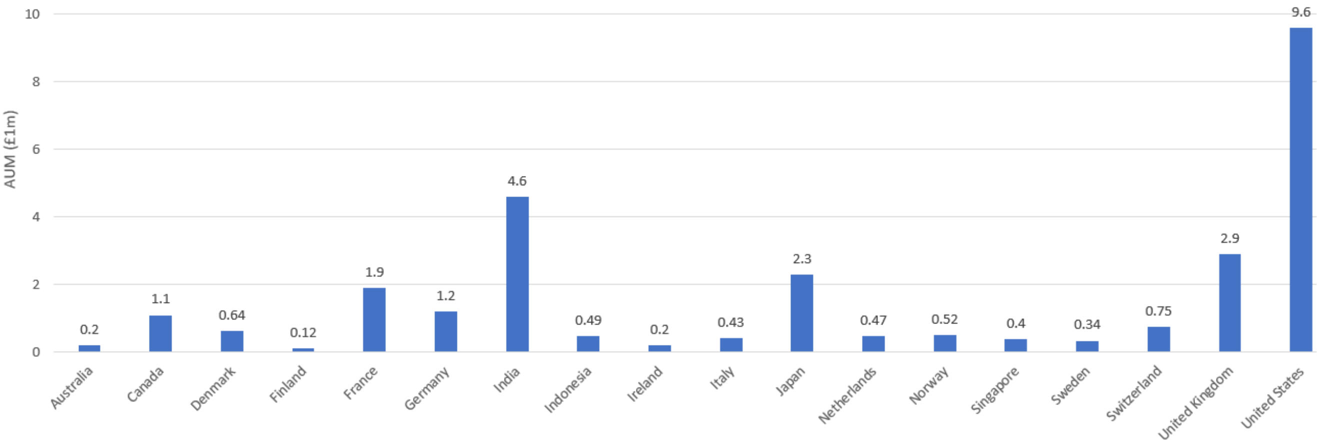


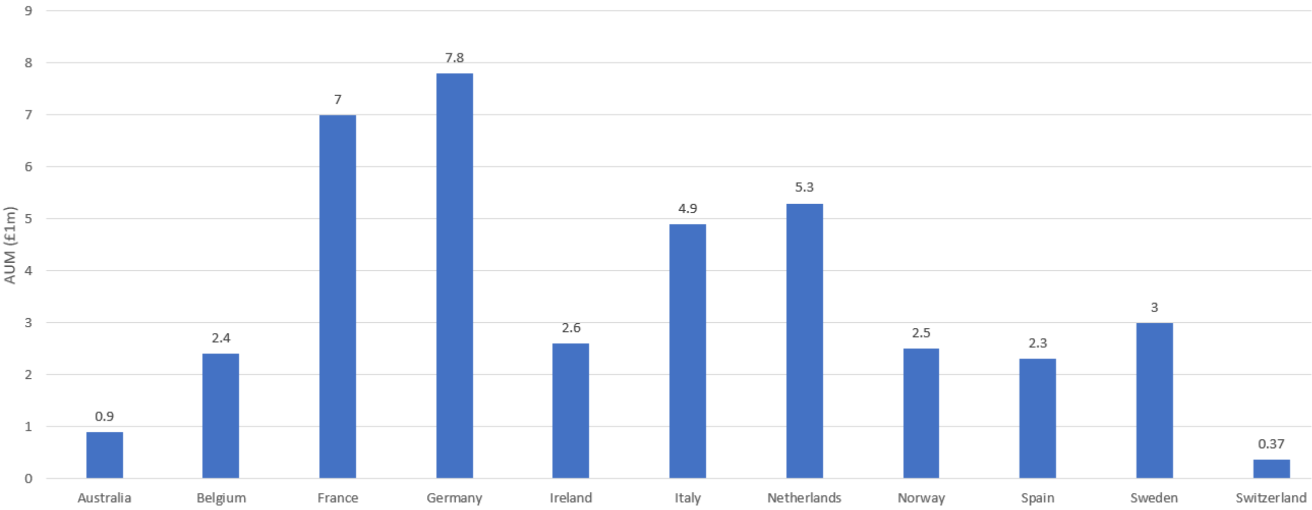


Sector	Development Capital	DFM	Energy & Infrastructure	Specialist Lending	Ventures	Total
Anaerobic digestion			68.1M			**68.1M**
Battery Storage			13.7M			**13.7M**
Cash / Working capital	1.7M		49.2M		2.0M	**52.9M**
Data centres	45.5M					**45.5M**
Elderly Care	99.9M					**99.9M**
Energy & Infrastructure			67.6M			**67.6M**
EZT	1.4M					**1.4M**
Fibre	2.8M		2.8M			**5.5M**
Healthcare					16.0M	**16.0M**
Hotel	25.7M					**25.7M**
Hydro			157.2M			**157.2M**
Nursery	0.5M					**0.5M**
Other	7.4M		3.4M			**10.8M**
Property Development				66.8M		**66.8M**
Pub	3.8M					**3.8M**
Pubs	29.5M					**29.5M**
QPC	0.2M					**0.2M**
Quoted		531.6M				**531.6M**
Reserve Power			46.3M			**46.3M**
Shipping	8.8M					**8.8M**
Solar			281.1M			**281.1M**
Specialist Care	41.4M					**41.4M**
Specialist Education	31.2M					**31.2M**
Specialist Lending				125.1M		**125.1M**
Wedding venue	2.0M					**2.0M**
Wedding Venues	2.4M					**2.4M**
Wholesale finance				4.5M		**4.5M**
Wind			106.8M			**106.8M**
Working Capital	25.7M					**25.7M**
Total	**329.7M**	**531.6M**	**796.2M**	**196.4M**	**18.0M**	**1,872.0M**

For listed equity by region (excluding cash and funds where we are an advisor instead of a manager):

The non-UK listed equity components are made up of two funds, Global (first chart) and European (second chart)





Note : assets for the Downing Strategic Micro-Cap Investment Trust, Downing Unique Opportunities, Downing Small and Mid-Cap Income, IHT and VCT funds are located in the UK. Multi manager funds are also excluded - for now, until launched - as above.

In private markets, all Property Finance developments are UK, all Development Capital assets are UK (note the one Shipping asset above is being exited and is registered in the Caribbean), and Energy and Infrastructure assets are UK, Norway, Sweden, Finland and India (we hope to be able to report AUM by region for these assets in future).

Stewardship Reporting

Here we combine two core concepts:

Stewardship Code Principle 6 Activity: *Signatories should explain what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs*.

+

Global Stewardship Principle 7: *Investors should publicly disclose their stewardship policies and activities and report to beneficiaries and clients on how they have been implemented so as to be fully accountable for the effective delivery of their duties.*

We advocate making all engagement policies public and annual in-depth reporting on activity through this submission. Parts of the content in these pages is included in direct to client fund-level and Downing-wide ESG reporting (like slide packs, brochures, fund literature and factsheets), noting that in some instances further detail on engagement statuses and outcomes can be shared privately with clients.

This shows our commitment to having a dialogue about sustainability with any investee, to closely recording all dialogues and understanding those that proceed well and those that don't, to collaborating with other investors and shaping policy. And it shows our strategy, resourcing and governance.

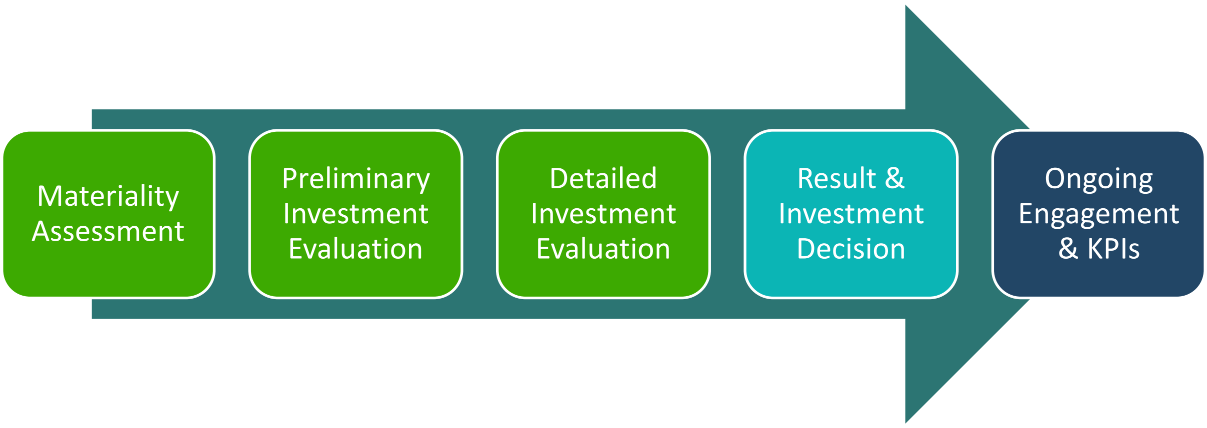
We believe that all this enables our stakeholders – the FRC, beneficiaries, colleagues, other ESG associations – to hold us to account for delivering our fiduciary duty. And it plays a role in capturing the investment performance that stewardship done well can create.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Overview First

As introduced above, ESG is a set of tools from when an investment is first introduced to Downing up to the point of exit, summarised as:



This is a continual process, whereby investment informs engagement, and then engagement informs investment, including exit decisions. This universal flow does not differ for funds, asset classes and geographies.

As explained in our discussion of clients in the previous Principle, we believe the longer-term nature of our investments and approach to ESG aligns itself to the longer-term nature of outcomes that our clients are saving for.

Integration To Investment Decisions

Across all assets, the ultimate objective of integration to investment decisions is valuing material **ESG factors**, identifying and then mitigating risks, and providing a foundation for follow-on engagement. Team specific considerations follow.

As part of our investment process, any potential new investments are independently scored according to our proprietary **ESG Scorecard** while our existing holdings are monitored against industry-wide criteria. The ESG Scorecard assesses overall ESG factors and identifies specific risks and opportunities at the company level. Below are sections in the Scorecard, where questions sit beneath and are scored from one (poor - no awareness) to five (strategic priority with evidence). For listed equity, factors are:

Climate change	Board committees
Other environmental: suppliers, water, waste	Business ethics
Biodiversity	Board structure
Health & safety	Bribery and corruption
Engagement (stakeholders)	Executive compensation
Diversity, equity & inclusion	Shareholder rights
Board structure	UN Sustainable Development Goals

This evaluation is conducted by our internal Responsible Investment team, which supports individual investment teams and provides in-depth expertise as well as independent oversight for all the ESG-related processes. We apply a hybrid approach, combining internal research with data from external providers, such as Sustainalytics for controversies and HOLT for peer benchmarking (or regulators like Ofsted for private markets). These results guide our fund manager's decisions.

While ESG considerations are integral to our investment thesis and decision-making, it's important to note that this is a qualitative process. We do not adjust **financial models**, such as cost of capital, discounted cash flows, income statement, balance sheet items, or valuation ratios, based on ESG results. We believe that model adjustments can be imprecise in terms of both magnitude and direction, and that there is no widely accepted formula for such adjustments, which could lead to incorrect inputs affecting investment or engagement decisions.

Conducting **ESG evaluations upon exit** is in its early stages. We perform ESG analysis, similar to the pre-investment scorecard, and review our engagement to identify our contributions to sustainability outcomes where relevant.

There is an **exclusions** policy whereby we will not invest in certain companies or sectors. As a responsible investor, we are committed to acting with common decency and we do not wish to finance certain activities with equity or debt. As such, Downing LLP will exclude investments in:

- Controversial weapons: Companies involved in the manufacture, distribution, maintenance, trade, transport, or storage of controversial weapons and deriving income from these activities.
- Adverse climate effects: Investments whose sectors, assets, and operations can create excessive climate change impacts and are not being well managed.

All listed equity funds have a six-monthly detailed review of their sustainability and stewardship. This covers fund levels scores, company benchmarking, results from external data sources, review of prioritised and tracked engagement as well as greenhouse gas emissions for the fund (see below).

Private markets assets alternate each quarter between product and **portfolio reviews**. At the latter, sustainability actions and indicators are looked at. These link directly to stewardship as low scores from the scorecard – like not having an ESG policy, not reporting emissions, or poor community engagement – become an area for dialogue with the investee.

Private Markets also use a proprietary scorecard. This references inputs from multiple sources, including TCFD, SASB, the Net Zero Investment Framework and GRESB. The percentage score informs investment committee decisions, plus future engagement and monitoring by investment teams – specific areas are identified and included in the handover / 100-day plans. Team specific factors include:

Energy and Infrastructure includes factors like the need for Environmental Impact Assessments, community liaison and land use / change. Following acquisition, the Infrastructure Asset Management division (called 'Infram') monitors and reports specific engagement items alongside general ESG KPIs to our investment team, board representatives and other stakeholders. ESG monitoring is integrated into the in-house asset management platform (Mercatus) to facilitate this.

Development Capital includes specific investment and engagement considerations for highly idiosyncratic sectors and assets. This includes care homes (eg, Care Quality Commission ratings, health & safety incidents), pubs (community impacts, waste, responsible drinking) and data centres (energy efficiency given material consumption rates).

Property Finance includes assessing the developer, their overall governance performance and approach to sustainable development, and the underlying development. During the term of the loan, updates are requested on project development to ensure this is on track to meet the standards that were reported at the outset.

In totality, we believe this investment integration has best served clients and beneficiaries as it integrates material sustainability factors into decision making, in order to mitigate risk or capture opportunity that they present. Stewardship of course complements this…

Integrating Stewardship

A **definition** we use of stewardship is that it

“Empowers investees to achieve positive change themselves”.

Our stewardship is driven by:

- Factors and themes identified during pre-investment;
- Best ways to preserve or add-value for our clients;
- Unexpected company or sector level surprises, and the need to mitigate any emerging issues;
- Resource allocation – investment colleagues and the RI team typically engage;
- Being a signatory to the UK Stewardship Code (2020), the UN Principles of Responsible Investment, and a public supporter of the International Corporate Governance Network Global Stewardship Principles (2016); and
- A strategic focus, a specific plan & approach for each engagement, and clear agenda for each interaction with investee.

And by two guiding **principles**:

- A collaborative, partnership approach that achieves positive environmental or societal outcomes, or well governed assets.
- Recognition that companies make decisions themselves, and our role as active owners is to inform and provide context and rationale for why these changes are recommended / required.

We were pleased to see in the FRC’s Review of Stewardship Reporting 2022 that greater focus will be placed on outcomes. In order to attempt to achieve this, all case studies and examples that follow use a set format of Context, Activity and Outcome.

Note while voting is an essential part of stewardship, for ease of reporting and reading, we share all voting content within Principle 12.

Evolving Stewardship

The investment and sustainability teams have experience with many engagement discussions, covering varied investees, subjects, time horizons and outcomes. Building upon this, and the expectations of clients (see Principle 6), we integrate best practice stewardship principles to all our engagement activity.

There are four main **types** of engagement activity. All apply to listed equity, and numbers three and four apply to private markets.

1. Bulk campaigns – letters and workshops that deal with a common issue at multiple companies
2. Collaborations – detailed further below, and including policy advocacy
3. Soft – informative and keeping in touch
4. Targeted – outcome focused

All listed equity and private markets stewardship activity is logged in a proprietary **Engagement Tracker** to monitor companies’ progress and performance, as well as manage escalations. This web-based / Excel-viewable tool has two main components:

1. Background detail: Company, Location, Sector, ESG Score, Engagement Title / Issue, Engagement Type, Engagement Category, Engagement Status, Progress, Company's Responsiveness, Contact details, UN Sustainable Development Goals, Milestone, Overall Downing Summary
2. New entry for each engagement dialogue on the same case as above: Date, Form of Engagement, Summary of Discussion Points, Actions Agreed / Change Objective, Follow Up Date, Next Step, Stage of Escalation (if applicable), External References (if applicable)

We have semi-annual stewardship **prioritisation**. This identifies which companies, which subject and which resource our engagement activity should focus on. At present this is done only for listed equity. A binary scoring approach of one or zero is applied to the following factors; the higher the score, the greater the need to engage:

- ESG risk exists
- Low score from proprietary research
- Low score or risk from external data providers
- Action or follow-up with company due

EXAMPLE: Biggest bang

Talga Mining is a Nordic based miner of green-transition minerals. An ESG risk around climate change exists, our scorecard and data provider's ESG scores are low at less than 50%, and there was an action to follow-up with the company on in July. These gave a prioritisation score of four, and need for engagement in H2 2023.

We are a public supporter of the ICGN **Global Stewardship Principles**, because they show some global best practices, and in turn enable us to meet our own requirements as a signatory to the UK Stewardship Code.

Starting September 2023, we conduct an **annual review of the proxy season** just past. This focuses on ESG-related resolutions, investor sentiment trends, developments in voting (for example say on nature could follow say on pay and climate?), and plans for the upcoming year's season.

Shareholder **resolutions** can be important to achieve the stewardship objectives of any investor, and proposing these at annual general meetings is an important right. We review resolutions put forward, including the subject and company's progress and responsiveness, and decide whether to support. When appropriate, we shall raise our own resolutions as well. While none occurred in this reporting period, they can reasonably be expected for future.

In private markets, each investment team operates with a distinct and tailored engagement approach (see Principle 1), aligning with the specific characteristics and objectives of their respective assets.

- Energy and Infrastructure: the main counterparty for regular sustainability dialogue is Operations and Maintenance providers. Subjects for engagement include standards for sustainability and environmental performance and an ESG Policy. Low scores or risks from the investment integration scorecard are passed to the in-house asset management team for onward monitoring and action through engagement

- Development Capital: sources arise from low scores or risks from the investment scorecard, or other opportunities identified to improve sustainability outcomes with the investee company. Areas for engagement driven by low scores are added to monthly valuation reports sent to the team, for awareness and action

- Specialist Lending: regular sustainability dialogue occurs with borrowers for residential property developments, and JV counterparties for Build to Rent. This covers low scores from the investment integration scorecard, risks, opportunities to improve scores in order to receive an economic outcome to a sustainability linked loan and reporting requirements. Engagement is also a key area through which our requirements in creating the SLL Framework with reference to the Loan Market Association's Principles is met

For transparency and to demonstrate what we have achieved under these concepts, **stewardship reporting** is crucial. This includes an annual impact report (part of the Downing Sustainable Investment report), this report as signatories to the FRC Stewardship Code and incorporating ESG in periodic client reporting. Further detail on reporting was in Principle 6.

Principle 8

Signatories monitor and hold to account managers and/or service providers.

Sustainability Data And Service Providers

For listed equity: any information that can assist the RI and investment teams in meeting the integration of ESG factors to investment and engagement activity, as discussed in our polices and throughout this submission, comes under one of:

1. Data from **external ESG providers**. Here there are two. First, Sustainalytics for controversies, behavioural norms, carbon emissions, product involvement and ESG risk. Second, HOLT for sustainability, governance and carbon
2. **Focussed** sector- or company-level ESG data eg, CDP, FAIRR, As You Sow and Carbon Tracker
3. Internal, **proprietary research**, analysis and commentary

We regularly engage with the first two external sources, in particular **Sustainalytics and HOLT** (two examples are immediately below). This is to understand their research process and how their services can be best applied and integrated into our own processes.

We constantly monitor the quality of the research, and compare to our own view. Where we believed that service provider research is out of date or inaccurate, we have provided feedback on how the research could be improved. We have also commented on changes that they have applied to the content and presentation of the information.

EXAMPLE: Carbon accounting

As at 1st May 2023, the financed emissions for all listed equity funds has been calculated. Following the PCAF methodology, this shows absolute (eg, own 5% of the equity so take 5% of the Scope 1, 2 and where material 3 emissions for a company, based on CDP or company data) and intensity.

We have acquired a carbon emissions module from Sustainalytics for comparing and checking our calculations against. Some are exact e.g. 0.37% owned of Infineon Technologies AG gives a Scope 2 result of 924,168 tonnes. Others vary, some by a small amount and explainable due to differences in reporting year or source data; others by a large amount (thousands of tonnes) and we are in dialogue now to compare methodologies and calculations to explain. This will enable emissions reporting with greater accuracy and confidence in future years.

EXAMPLE: Carbon analytics

The HOLT linker module analyses impacts to future cash flows of decarbonisation, for example emissions reduction targets, shadow carbon prices and ability to pass these through and green revenue.

This is an ideal subject to discuss with companies. After working with HOLT to fully understand their model and inputs and outputs, we have an engagement call with Schneider Electric scheduled for November 2023. Questions arising from the analysis include capital sources for planned scope 3 reductions, plans for green R&D and plans for using or communicating marginal abatement cost curves.

In order to ensure providers receive clear and actionable criteria to support our stewardship activity, but also are held to account, we undertake annual commercial reviews. We have presentations by other providers so that we can compare alternatives and understand enhancements or new products (like metrics for nature and climate value at risk) that may be of benefit. When all contracts are due for renewal, we review alternative providers in detail to ensure we are receiving the best quality data.

For private markets: in April 2023 we selected and onboarded a greenhouse gas emissions platform designed especially for private equity / Development Capital (Green Project | Automated ESG Management Platform (greenprojecttech.com)). Portfolio companies that are suitable for emissions reporting – for example where we are a majority owner, not exiting or that do not already report emissions on their own – are presently being onboarded. Results are an example of an ideal subject for engagement, and an example is provided within the next Principle.

For Downing: we use a specialist sustainability consultant called Agendi for reporting our own greenhouse gas emissions, and general advice (eg selecting the emissions platform). Emissions are on pages 11 to 20 in our sustainability report: 64b5223f052ede2f51d355e4_Sustainability Report 2022.pdf (website-files.com)

We confirm that this approach of starting with data and supplementing with our own research and analysis, including scorecards and option for an independent opinion from the ESG team, has met our needs.

Other Data And Service Providers

Administrative services for listed equity are provided for most funds by Valu-Trac ("VT") as the Authorised Corporate Director. There is a service agreement in place, covering: enquiries from interested parties on matters relating to the functions carried out on behalf of Downing, producing a full monthly Key Performance Indicator ("KPI") report, and VT maintaining a log of all current issues & actions. Monthly operational calls take place with VT to discuss events during the period, including previous action points and KPI reporting. Any issues regarding the funds are highlighted as soon as they occur (rather than waiting until the monthly call). All issues are logged internally with the Risk team, using an incident form, as soon as possible. Example issues are late reporting of Fund NAVs or errors with trade booking causing impact to Fund NAVs.

Proxy voting is actioned via Broadridge. Fund manager decisions, with the opinion from the RI team, is input and rationale for the vote is saved (more in Principle 12). For monitoring this service, an email is received from Broadridge to confirm the input of votes, and the portal is checked regularly to ensure voting has been actioned as intended. After the vote is made, it is then placed in the voting log (discussed above) and reported in our Sustainability Report. No issues have been experienced with Broadridge in the reporting period. If the platform is unavailable, we are able to send our vote request by email instead.

For certain funds, **transaction reporting** is provided by IHS Markit. Daily emails are received to summarise the files uploaded, and in addition the portal is monitored every day to ensure the files feed correctly and not rejected. A quarterly report is provided to Downing to reflect service levels. If the portal is down, we have the facility to email the transaction report file to ensure the service is maintained. For other funds, VT also undertake transaction reporting.

Data price feed providers are Bloomberg and FactSet. Their service and terms are reviewed upon contract renewal (every two years with Bloomberg and annual for FactSet). Any issues in the interim are raised with their helpdesk and customer service contact.

With all of these providers, where an incident occurs, we would complete the Downing Risk incident report. Issues are escalated to the Head of Listed Equity, and supporting Committees as needed thereafter. These include the Public Equity Risk and Oversight Committee, Public Equity Advisory Committee, Product Governance Committee and Enterprise Risk Committee. During the period, Downing identified inconsistencies in relation to an external service provider and the provision of data. To mitigate, we appointed a new service provider in July 2023 to ensure good outcomes for our clients and to maintain our regulatory obligations.

This oversight, also engaging internally and with the provider to investigate and resolve, thereby holds providers to account and ensures no adverse impact to our investment, or ESG, activity. This is especially relevant as Downing Fund Managers is responsible for a number of Open-Ended Investment Companies, investment management responsibilities for one Investment Trust and the management of a discretionary portfolio service. Due diligence is required to be performed periodically to ensure that the structure and relationships are sound.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

This Is How

As a critical second component within the Downing ESG toolkit, active engagement is key to delivering fiduciary duty as all investors are stewards of the capital entrusted by clients. It provides a real opportunity for **net environmental gain, positive societal outcomes and well governed assets**. This fiduciary responsibility therefore also extends to improving the management of companies for all stakeholders alongside the objective of financial return.

Many of the cases that follow were prioritised based on the concepts of engagement integration explained in Principle 7. We monitor the compliance of companies with international and global standards such as UN's Global Compact Principles, International Labour Organization's Conventions, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

These are one of several **foundations** for our engagement topics. The ESG scorecard also identifies specific issues at individual companies. Typically, a letter (private) was sent to commence the engagement and then all methods of engagement from calls to in-person meetings are used as most appropriate.

All cases are based on our Responsible Investment strategy, introduced in Principe 1. We ensure our investment beliefs, strategy and culture enable effective stewardship. Within Principle 1, we recognised that our responsibilities as an asset manager extend to having a clear commitment to engagement and long-term active ownership, with understanding and experience necessary to achieve this.

All stewardship activity for listed equity (and private markets Development Capital when the subject relates to any ESG factor) is logged in an Engagement Tracker. This provides institutional learning and memory, and monitors companies' progress and performance and helps to manage escalations. As an important part of stewardship integration, the Tracker is explained further in Principle 7 (see Evolving Stewardship).

Subjects and themes for engagement in this period have included:

- **Climate change** (physical & transition risks managed / opportunities capitalised upon), especially through Climate Action 100+ (see next Principle)

- **Business strategy**: the Head of Listed Equity has Board Directorships at investees. The wider DFM team have observer rights on Boards and are pro-active in ensuring that the company drives value for all its stakeholders. This has included divestment of non-core assets, a reduction in debt, a restructuring of Boards and providing strategic guidance to management teams

- Board independence: a common and important area. The ICGN Global Governance Principles provide useful guidance for our engagement on effective boards, and we look for boards that are: informed, act in long-term interests, have leadership, independence and a sufficient mix of directors (relevant knowledge, independence, competence, industry experience & diversity of perspectives), high standards of ethics, manage risk (proactively oversee, review & approve approach), remuneration aligned with interests of company, oversee timely and high quality company disclosures, robust audit practice, protect rights of all shareholders (linked to economic stake and protecting minorities)

- We have previously recommended **changes in chairpersons** and supported companies in selecting the appropriate person to take over. We have carried out due diligence on companies that showed their Boards could be better structured

- **ESG disclosures**: given their size, some investee companies are in the early stages of including non-financial disclosures in their annual reports. We have directly engaged with management and supported them with their understanding, including by sharing examples of Downing's own reporting on Sustainability, Stewardship and Responsible Investment

Real Outcomes And Case Studies We Have Contributed To

In order to show how integrated and important stewardship is for all asset classes, we present one case study and outcome for each fund in listed equity and each asset class in private markets (company names are provided only where we are able to share without confidentiality concerns), and start with a specific type of dialogue that both ourselves and investee companies have found extremely useful.

Case Zero: A universal engagement

Context: ESG scorecards give us useful insights into the sustainability risk and opportunity, which companies themselves may not fully appreciate. Going through these in detail in an engagement call are a valuable chance for actual outcomes

Activity: Over the last twelve months, we have had two calls with private markets and eight with listed equity companies to walk through each question (up to 50), the score we assigned and rationale or source data

Outcome: Some scores were adjusted as one objective was to give companies an insight into their investor's ESG analysis and some factors (like monitoring health and safety) were being done just not reported externally. Some led to actual actions – the most powerful of which was one small cap media company starting to report its GHG emissions using a consultant after our review showed they scored poorly for climate change and this as an immediate action. All companies found the calls insightful and were appreciative of the time and initiative in sharing results, even saying that we were their first investors to do so. Follow-ons were to check back in on progress, typically after 9-12 months.

Case #1 Listed Equity (fund and company need to be anonymised)

Context: Although it is not a requirement of AIM to report diversity metrics, we believe that the company should report diversity metrics in the future, specifically the percentage of female senior managers. Additionally, the company reported that their employee response rate to satisfaction surveys was 69%.

Activity: We held a meeting with the company to discuss the above issues.

Outcome: Management appeared willing to report diversity metrics. We are monitoring their future reports to check for implementation. The company indicated that their employee response rate is now greater than 70%. One of the reasons for the previous response rate was due to the suspicion around completing such surveys as employees do not typically trust that the surveys are anonymous.

Case #2 Listed Equity, DEUI, Aumann AG

Context: There was a concern that the company would not meet their set targets to source green electricity by 2025 and be carbon neutral by 2030 as they did not disclose carbon emissions. Apart from the lack of emissions data, there is a lack of metrics regarding safety and social factors (ie, diversity). Additionally, ESG KPIs are not included in the company's remuneration policy.

Activity: A call was held with the CFO where the above issues were discussed.

Outcome: The company will disclose their carbon emissions in their 2024 reports. They are currently focused on ways to implement the figures to reduce climate risk. As the company's processes are not carbon intensive, it is not a priority to have ESG KPIs included in the compensation. The company will increase transparency on safety and social aspects as this will assist in obtaining ESG ratings. We are currently monitoring this issue.

Case #3 Listed Equity, DGI, Glencore

Context: The investment thesis for holding Glencore acknowledges the risks (ie, high emissions from coal and other mining) but also the role the company will play in transitioning to green. The importance of a getting the climate transition plan right, with credibility and robustness, is therefore even more relevant

Activity: We joined a coalition of investors putting forward a resolution that focussed specifically on the coal disclosure component (release: Surge in investors demanding greater transparency from Glencore on thermal coal production - ACCR). We also pre-declared our voting intentions – against the climate plan and for the resolution – on the UNPRI database

Outcome: Results were 30.25% vote against the climate report and 29.22% vote in favour of the shareholder resolution. Currently awaiting revised plans from the company, with questions prepared by the coalition to discuss directly as well. (Included here instead of Principle 10 or 12 given the outcome)

Case #4 Listed Equity, DSMI

Context: We aim to improve the independence of the board as the Chairman also serves as the CEO. There are concerns surrounding the oversight of the business and prioritisation of CEO's interests over those of shareholders.

Activity: We corresponded with the broker and shared our view that the CEO and Chairman should be separate roles. We do not believe that this would affect the culture or change the Chairman's position in the company.

Outcome: The Chairman will distance himself from the day to day management of the business which will allow for their corporate governance to be in line with governance standards (ie, separate CEO and Chairman roles). There is currently no timeline, and we are monitoring.

Case #5 Listed Equity, IHT and DSM

Context: Disclosures have been improved over the year for one of our investee holdings (held by two funds). However, the company still struggled with specific climate disclosures.

Activity: We engaged, and the company indicated that they have increased resource to work on next year's ESG initiatives. We sent resources to the company such as presentations and details for taking climate action. The company was cooperative and will return with questions, if needed.

Outcome: We are waiting for the next report to continue to monitor the company's ESG transparency and risks.

Case #6 Private Markets, Development Capital

Context: One specialist education needs school (operating over seven locations in south west UK and expanding) where we are majority owner was keen on develop its sustainability, and was able to allocate resource in its head office for this.

Activity: We offered to act as a 'free sustainability consultant' and held regular calls – every two or three months – to evolve their practices. This included creating an ESG policy, onboarding their schools to the GHG emissions platform and looking at other actions from the ESG scorecard like regulatory and community engagement.

Outcome: Improvement in ESG score from 55% in October 2022 to 68% by October 2023; awareness and support at their board of progress (last discussed as an agenda item in September); wide awareness at the company of emissions, which should lead to reductions as a next focus.

Case #7 Private Markets, Specialist Lending

Context: Linking loans to sustainability or ESG factors was a strategic priority for Downing heading into 2023, given that we operate in a unique area of the real estate debt market and wanted to have a positive impact.

Activity: We designed a framework to use the ESG score to cover multiple KPIs and targets (physical risk, operational and embodied carbon, and water, waste and biodiversity measures), and then an economic outcome for meeting these targets, with reporting and verification as well. This theory on paper had to be tested and in engagement discussions with four borrowers (residential property developers) in Q1, we scored deals (eg four homes in Bicester) based on data from the borrower and discussed areas for improvements – A rated white goods, aiming for an EPC of B instead of C, heat pumps vs gas boilers and considering nature were discussed.

Outcome: The final framework to reflect realities after these engagement discussions was launched in Q2, and since then four sustainability loans are live and more expected. Engagement with the borrowers around their ESG score is an important part of this framework.

Case #8 Private Markets, Energy & Infrastructure

Context: Operations & Maintenance providers are hired to look after sites. The Swedish hydro portfolio use three different O&Ms for different assets and this relationship is managed by the hydro technical team within asset management.

Activity:

- Monthly meetings to go through the overall performance, technical and financial
- Every week project specific communication where the demands are clarified and followed up
- Before every project a risk analysis needs to be done. One O&M does that in an app and for the other smaller O&Ms a paper template has been created for them to populate before a project or work is carried out
- Previous weeks' incidents are presented every Monday in a weekly report. But any bigger health and safety incidents are reported as soon as possible to ensure the technical team can act
- The technical team also go with the O&M technicians on site. An internal rule is that every site should be visited at least once a year. This enables the O&Ms to be direct with any issues they might have, and the technical team can create their own perspective on the assets

Outcome: We have kept up to date on the work at the assets and been able to act on any irregularities spotted. This then enables their wider sustainability outcome of renewable power generation, to replace fossil fuels.

Case #9 Listed Equity Campaigns, 30+ companies
Context: We aim to run one campaign per quarter as somewhere in-between macro systemic and micro company specific stewardship, and reaching multiple entities with the same engagement need.

Activity: This period has seen: requesting and supporting UK small and micro caps to start to report emissions (Q4 2022); promoting annual director elections and independent boards as best practices corporate governance (Q1 2023) and offering voting choice for underlying retail unitholders on their investment platforms (Q2 2023)

Outcome:

- **Emissions** campaign: we wrote to 30 companies and offered a workshop; no response from ten, ten were already progressing, ten joined the workshop, of which we worked closely with three to commence reporting
- **Governance** campaign: most companies responded with either plans to introduce annual elections or to reference the ICGN Global Governance Principles (number two, Leadership and Independence) in future, or with a matrix of why their directors are suitable based on their skills and experience
- **Platforms** campaign: fin tech and wider adoption, with cost economies, are likely needed to evolve as technology at large asset managers or data providers (eg voting choice to notify beneficiaries of a vote and process their instruction) becomes mainstream; this was a useful campaign for awareness

Case #10 Listed Equity, Multi Manager Funds
Context: We aim to analyse and monitor the ESG risks present in our multi-manager funds. We hold discussions with fund managers to understand their approach and strategy towards ESG. Engagement done so far has been in preparation for the fund launch (Q4 2023.)

Activity: We engaged with a fund manager who has few formal ESG processes and policies due to size of the firm/fund (two people). Despite these constraints, the fund manager has engaged on governance issues including minority shareholder protection (tender offers). Additionally, the fund manager shares similar views to ours regarding a company's product involvement (eg, coal). We shared advice on the implementation of policies and knowledge of frameworks, including a suggestion to consider becoming a signatory to the UK Stewardship Code and UNPRI.

Outcome: We have created a Multi-Manager ESG Scorecard Assessment to further evaluate the ESG risks for our investee funds. We will implement this assessment in Q4 2023 using the information gained through engagements. The results from the assessment will be shared and discussed with the fund manager.

Case #11 Private Markets, Renewable Development
Context: In order to give a different perspective and show that engagement is done with all stakeholders, not just investees, we often speak to local communities. This is to shape investment decisions around renewable power – usually solar – installations on nearby land around the UK.

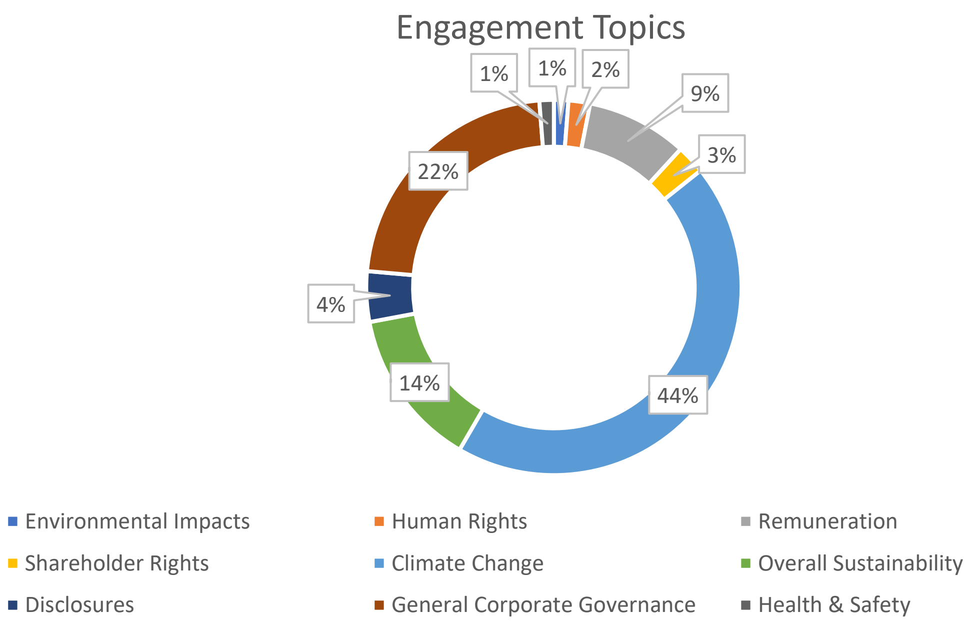
Activity: Dialogue is often direct (ie conversations or panels) with local individuals or associations, and aims for deeper insights and trust, more than just meeting planning obligations.

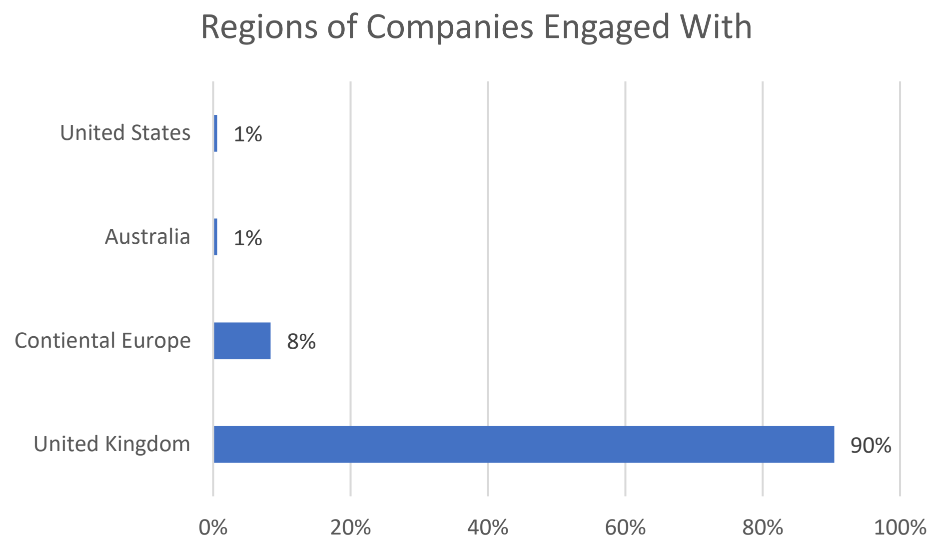
Outcome: Projects in various stages from approval to early, with outcomes including community engagement follow-on, evidence to address concerns (like human rights in solar supply chains) or planting hedges to block obstruct the solar panels.

Engagement In Numbers

In the past year, Downing has engaged with **65 companies, 169 times** on ESG-related issues in listed equity and private markets (Development Capital), as logged in our tracker. This compares to 18 companies in listed equity in our last submission and shows progress amongst all involved in the aims and purpose of engagement. Naturally, dialogues on sustainability are only expected to increase in 2024.

The majority of these focus on climate and environmental impact (first chart below). And on governance given the importance of alignment with companies' strategy and commitments, and therefore in accountability. Geographically (second chart) the split is as expected, with the bulk in UK, followed by Europe.





Our listed equity engagements are mapped with the **UN Sustainable Development Goals** – referencing also their sub targets and indicators – to show that many topics discussed are aligned (compared to last year, we believe there is closer tracking of engagement this year and actual evidence is required in order to be mentioned here). Of the 65 ESG-related engagements, dialogue with 31 companies touched upon at least one SDG:

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

Thoughts On Collaborative Engagement

We continue to believe that one of the best and most effective ways to improve management attitudes is through engagement and peer group pressure. Acting as block-holders with say 40% of a company's share capital and having a coherent and consistent engagement dialogue is often more likely to have a successful outcome. This is re-enforced by several positive discussions and outcomes with our peer investors – including globally – in the reporting period. Efficiencies from companies' perspectives has also been witnessed, and having the same conversation once only.

Where we are amongst the largest shareholders in a company, we can exert more influence; otherwise collaborating with fellow investors is our most effective way of encouraging change, as well as voting at annual, and extraordinary, general meetings.

We note '**three C's**' that are important to remember given the unique nature of partnering with other investors. Confidentiality and always respecting client and other fiduciary privacy; the need to avoid acting in concert, particularly to influence a share price or the positions & opinions of others; and managing conflicts of interest where we are partnering with peers who can also be our competitors. All can be mitigated by following applicable regulatory requirements, laws and guidelines.

Collaboration is also an effective way to use our resources. This has been evolving since H2 2022. It includes being a signatory to letters, voting in line with the collaboration, and engaging on the issues when we meet management teams.

In addition to structured and formal programmes, when we have concerns that cannot be addressed through direct engagements, we may decide to put our views across to other investors through co-ordinated dialogue or shareholder resolutions.

Stronger Together: Evidence Of Collaborative Engagement

As strong advocates of collaborations and with many years of such experience, below are highlights for this period. Generally **outcomes** have been mixed, certainly with some management teams showing a willingness to engage with investors and to improve their environmental or climate impacts.

Collaboration	Company And Purpose	Activity, Outcome And Changes Made
Climate Action 100+	Multiple companies, discussing decarbonisation against ten (soon to be 11) standard benchmark indicators Utilities, Chemicals and Steel working groups: contributing to wider direction on the initiative	EDF: contributing to agenda and meeting preparation, sharing knowledge and best practices with the company and ensuring agreement and progress of next steps & actions. Discussed status of progress in December 2022 EDF, Bayer and Iberdrola: semi-annual reviews of updated benchmark results, and planning for the next phase of the engagement and scorecard updates
Nature Action 100	Signed up as an initial collaborating investor at launch	Currently awaiting companies and investor peers for engaging
UNPRI Advance	Siemens: exploring rights (of land and of self determination) in Western Sahara	Support investor (signing letter and contributing to agenda and meetings)
Ceres Food Emissions 50	Mondelēz: emissions reduction	Support investor (signing letter and contributing to agenda and meetings)
Ceres Valuing Water Finance Initiative	Sony: exploring water impacts (usage, access, ecosystems, lobbying, board oversight)	Support investor (signing letter and contributing to agenda and meetings)
FAIRR Waste and Pollution	WH Group & Yara: new engagement on impact of agriculture to nature	Support investor (signing letter and contributing to agenda and meetings)
CDP Non Disclosure Campaign	4imprint Group plc, Aegis Logistics Ltd Centaur Media Plc, Friedrich Vorwerk Group SE, JET2 PLC, KBC Ancora, TheWorks.co.uk, doValue SpA	Collaborating investors, signing the letter and requesting a call to explain CDP. None commenced this year (despite the broader success of CDP's campaign). We may prioritise and engage directly on emissions into 2024
CDP SBT	Request for certain companies (2,100+ total) to make science-based emissions reduction targets	Support investor (signing letter and contributing to agenda and meetings) for companies that we hold
Mining 2030	Planning reforms for a greener sector for 2030+	Support investor and awaiting detail for how we can contribute
Net Zero Engagement Initiative	Ence Energia y Celulosa: next level under CA100+, requesting targets for net zero, emissions reduction and disclsoure	Zero response from company, subject for escalation including shareholder resolution at their AGM in May 2024

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

We agree and apply the FRC's expectation of continuous improvement being essential for stewardship.

In our experience, most of our engagement objectives or concerns have been successfully addressed through constructive and active engagement conducted by our investment and RI teams.

At times, we may determine that an engagement has not proceeded as expected and escalation is required. This can be based on the judgment of the investment or RI teams, or in response to a clear trigger / event occurring and we consider the potential significance of the issue for our clients. A **sequential process** is then followed, separate to regular engagement, with progress closely tracked in the engagement tracker. While this applies universally and does not differ for funds, sectors and geographies, as with any dialogue local culture and context is also considered.

Typically, the **flow and timings** that we apply to escalating stewardship activities are:

1. Engagement *0-3 months*	2. Meeting *3-12 months*	3. Review *12-18 months*	4. Voting *Annually, per AGM*	5. First Review *Ongoing*	6. Final Review *Ongoing*
Contact company and / or letter to company. This shall consider: circumstances in which the issue has arisen, relevant best practice standards / guidelines, any explanations provided by the company. Timing is decided on a case-by-case basis based on our knowledge of the company and the issue	Engagement meeting with senior management, non-executive directors, the Chair or Board members. The option to utilise voting and support shareholder resolutions is considered now (also available at stage three	Look for progress in annual report, or other relevant sources, and any patterns over time in the company's behaviour	Formally voting against management / non-exec directors, supporting shareholder resolutions, seeking collaboration with other investors, or otherwise utilising AGMs (circulating a statement of issues or requisitioning resolutions or an EGM). Proxy providers may also be informed of the issue	Issue resolved or review holding – buy, hold or sell	Monitor and report, including via the FRC Stewardship report

In general, we do not advocate going public with the issue, though we may nonetheless make our concerns public should the company repeatedly fail to address our concerns. Litigation and participation in class action lawsuits are also not used.

Below we share three examples of escalation in practice.

1. Private markets: Onboarding a healthcare operator to the emissions platform

Context: As a private equity holding and priority for greenhouse gas emissions reporting, and then reduction, we were struggling to get consumption and other utility data for buildings run by the company. The challenge was other priorities for the company, and multiple investors to deal with

Activity: Several calls with the management team to explain the concept and benefits of reporting emissions and the relative ease of onboarding and minimal cost. This was accompanied by internal engagement with increasingly senior colleagues. All took place over Q1 and Q2 2023

Outcome: Required consumption data was received and shared with the Green Project onboarding team, ready to discuss in October 2023. This is the start of the company's progress towards net zero

2. Listed equity: Appointment of new Chair and CEO

Context: The company had underperformed and had missed forecasts. Additionally, there was scepticism on climate change.

Activity: Discussions were held with the Board to replace the Chairman and CEO, as well as governance, net zero and overall ESG approach.

Outcome: Appointed a new Chair and CEO that aligns with the company's goals and shareholders' values.

3. Listed equity: Board independence

Context: The Board did not comply with the QCA Code's requirement that at least half of the Board should be independent Non-Executive Directors. Two directors were not independent. Both directors were connected to the firm through their interaction with businesses that were stakeholders of the firm. Additionally, there was a personal relationship between two board members. Given the above average proportion of NEDs for the company's size, there was enhanced scrutiny and challenge of the board structure was required.

Activity: A letter was emailed to the Chair to raise the issue (offering a call as well), as well as our relevant policies and governance principles.

Outcome: The Chair responded to the email that there are plans to have a more independent board and there are mitigations in place to enhance the scrutiny and challenge of the board. We are monitoring this company to ensure that our recommendations are adopted.

For 2024: Net Zero Engagement Initiative attempts with Ence Energia y Celulosa (from Principle 10) are another potential upcoming escalation and a change in engagement approach through using shareholder rights, subject to local market rules.

Principle 12

Signatories actively exercise their rights and responsibilities.

An Important Client Asset

A client asset describes how we view our voting rights. We advocate that companies are accountable to all of their shareholders and not just a few of the largest, and that a vote is a powerful right.

We aim to vote on all proxy proposals, amendments, consents and/or resolutions of general meetings of companies held within our managed portfolios. Our preference is to vote For or Against a resolution. We generally aim to support management, although resolutions that are inconsistent with our Policy or for which we have previously abstained with concerns not suitably addressed, will be voted against.

Voting follows a **process** of:

Flag (by Operations) → Advise (by the RI team, for certain subjects like climate or pay) → Decide (by the fund manager).

Examples of the Advise stage have included credibility of climate transition plans (Schneider Electric), CEO pay (Bayer) and suitability of directors standing for re-election (several UK large and small caps).

We provide **feedback** – see a real example below - to our investee companies either through brokers or via direct engagement, including where we have voted against. From several emails sent during Q2 2023, the majority received no response from investee companies, with a small number requesting clarification of our position. We will continue to do this in 2024.

EXAMPLE: Sorry, but…

June 2023

Dear IR,
Downing Fund Managers is a boutique active equity investor, based in London and with several strategies including global, European and small cap.

In line with best practices of investor stewardship, we are writing to advise where we voted against specific resolutions at your recent AGM. This is to convey our rationale (potentially our peers' as well), so that you may understand for future similar items where your shareholders have a vote.

We voted against the Inpost remuneration report and policy. This was due to the targets and two reasons. First, the required detail on what targets management had been assessed against was lacking (we noted your response to add this to the Q&A list). Second, targets focused mainly on growth rather than any sustainability or other non-financial metrics.

If you would you like a short engagement call to discuss further, we would be happy to schedule.

Downing does not participate in any stock lending programmes.

The 2022 **Downing Sustainable Investment report** contained key statistics and voting activity: 64b5223f052ede2f51d355e4_Sustainability Report 2022.pdf (website-files.com), page 49 onwards.

Voting In Action: Policy

The DFM Voting and Engagement Policy sets out clear guidance on four stewardship and voting principles. This policy was created with the consideration of the diversity of the funds' strategies. It is followed by all funds, and the funds do not have their own separate policies for voting. There is no minimum percentage equity threshold for us to vote, and we vote on all investee companies.

1. **Effective corporate governance**: Board composition, Chairman and CEO, Non-Executive Directors, Independent directors, Board functioning, Charitable and political donations, Board committees, Director re-election
2. **Compensation, Audit and Accountability to Protect Shareholders**: Remuneration, Audit and auditor fees, Risk identification and management
3. **Appropriate Capital Structures**: Increase in share capital, Pre-emption rights / Dilution of equity, Dividends, Shareholder rights
4. **Advancing Sustainability**: Disclosures, Climate change, Investor collaborations

These reflect our core beliefs around **governance** (historically the most important, hence having three of four items focussed) and **climate** (more recent and new in 2022/23). And as discussed above, annual updates will add further guidance to reflect latest voting trends and developments. Say on Nature could be a successor to Say on Pay and Say on Climate votes? Pre-emption rights as an important protection for minority shareholders – see example number six below – are another area whose development and peer approaches we are monitoring for future.

We have adopted a pragmatic approach to voting, where issues are evaluated on own merit and under the relevant circumstances; we directly communicate pre-voting with management as necessary particularly on any contentious matters, to assist us in determining our vote in accordance with the best interests of DFM and our clients.

Notwithstanding our consideration of issues on a case-by-case basis, the Policy sets out **expectations**. This positioning reflects our responsible investment commitments including being a signatory to the UNPRI and FRC Stewardship Code, and supporter of TCFD and the UK Corporate Governance Code.

Overall, we believe that companies with a robust corporate governance, that take proper account of their environmental and social impacts are more likely to perform better over time through positive sales, talent retention and avoidance of fines. DFM generally supports a "comply or explain" approach to corporate governance and endorses the Code. We expect companies to explain and justify any reasons for non-compliance, and to outline their plans for compliance in future. In the case of non-compliance, we reserve the right to accept or reject the explanation. For non-UK companies, we are supportive of similar national Codes.

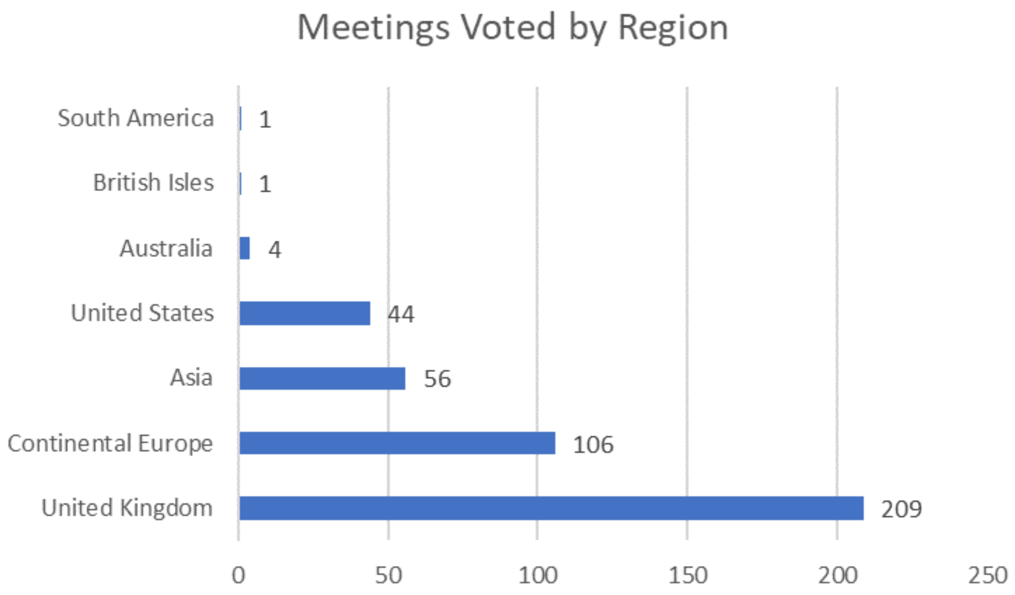
We believe this process is robust and fulfils our fiduciary duty. The option for clients to over-ride our voting is not offered but as mentioned above, **voting choice** is an exciting area whose development we are monitoring.

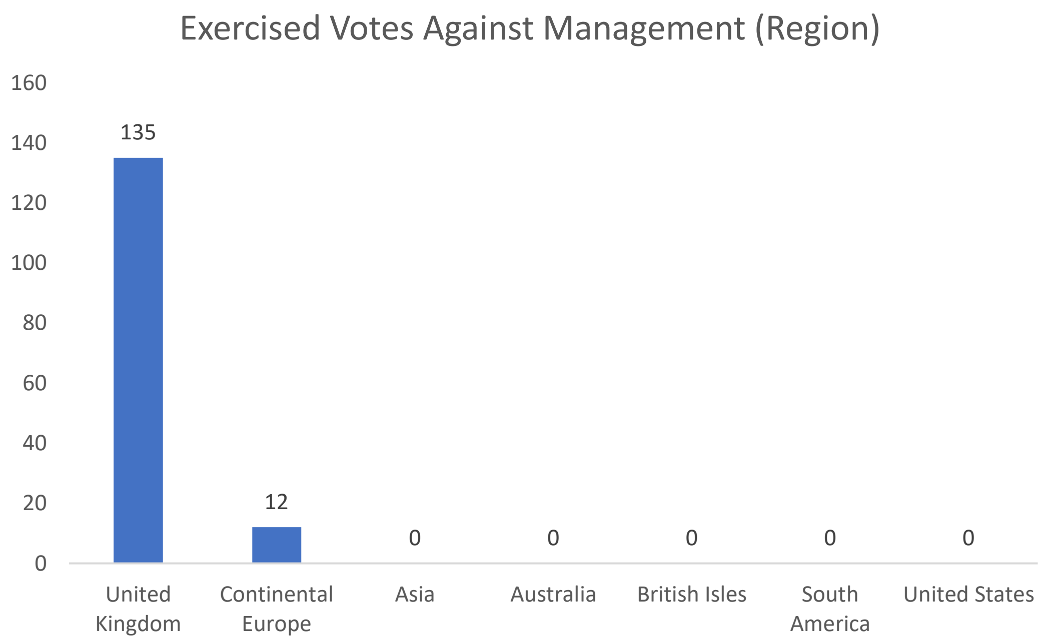
Voting In Action: Numbers

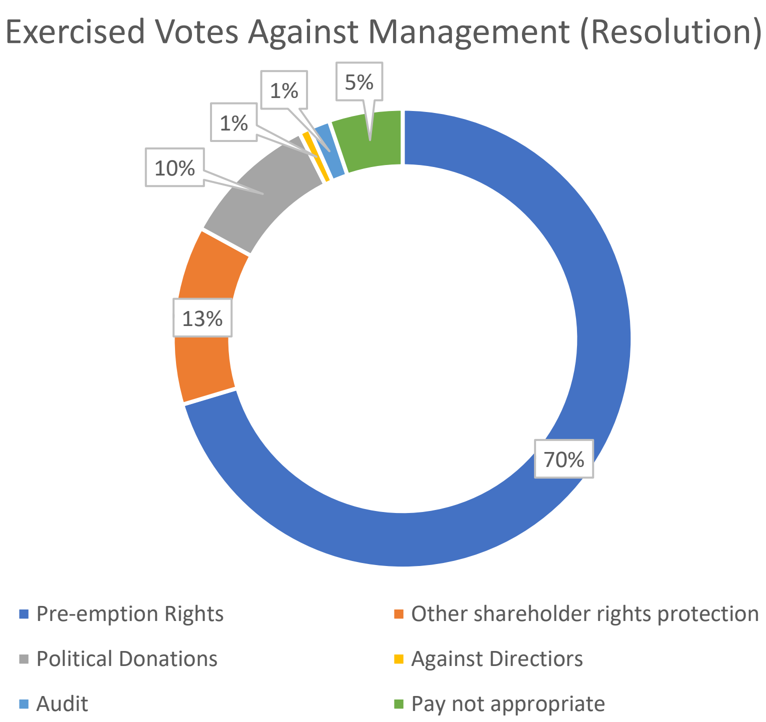
Downing will engage with companies in which we invest on behalf of our clients on occasions when we think it is in investors' long–term interests and will endeavour to identify problems at an early stage to minimise any loss of shareholder value. Engagement may take the form of voting against management or establishing a dialogue directly with management.

For the reporting period, we voted at **421 company meetings comprising 4,716 ballots**, whereby 3% (or 147) of voted ballots were against management recommendations. The graphs below illustrate where such votes were exercised by region and resolution category, as well details of votes against management recommendations by our fund managers. Through dialogue with smaller investee companies and research to monitor at larger ones, we are still often aware of actual vote outcomes, and can respond accordingly.

Downing Fund	Total Meetings
Euro Unconstrained Income	43
Global Investors	181
Unique Opportunities	34
Small & Mid Cap Income	50
Strategic Micro-cap	18
Listed Infrastructure Income ***(note being exited)***	37
IHT	32
VCT	26
Total	**421**


Meetings Voted by Region
South America
1
British Isles
1
Australia
4
United States
44
Asia
56
Continental Europe
106
United Kingdom
209
0
50
100
150
200
250


Exercised Votes Against Management (Region)
160
140
120
100
80
60
40
20
0
135
12
0
0
0
0
0
United Kingdom
Continental Europe
Asia
Australia
British Isles
South America
United States



We have updated our **voting table**, used to track voting decisions. This is in order to make reporting more standardised and comparable (eg, reasons against), and prepare for outcomes from the FCA's Vote Reporting Consultation (to which we contributed) and mandatory or voluntary reporting of votes. Reasons that we will be able to show in future include:

Governance / Pre-emption rights
Governance / Other shareholder rights protection
Governance / Political donations
Governance / Against Director
Environmental / Climate & decarbonisation plan weak

Furthermore, we have backfilled our voting data for the preceding year to ensure a comprehensive record of our voting decisions.

By continuously improving our stewardship activities and embracing industry best practices, we are better positioned to drive positive change and encourage companies to act in accordance with the principles set forth in the UK Companies Act 2006, Section 172, while addressing environmental factors and climate-related objectives.

Voting in Action: Examples

Six examples of important votes from the reporting period follow. These are defined as where we are large (above 3%) shareholders, the company represents a material holding within a fund or the subject has potentially significant ESG implications. As above most common reasons for votes against remain pre-emption rights, political donations, the election of a particular director and the credibility of some – but not all – climate transition plans.

Note: we do not use the services of proxy advisors and prefer to do our own analysis of a vote. This means we do not have access to any meeting results service and the content below is based on researching each case individually. Should the FRC require more case study volumes in future, we can aim to increase.

Vote Example #1

Resolution: Advisory opinion on the Climate Strategy at Schneider Electric, May 2023 (item #17)
***Our Vote*: For**
Rationale: As a major source of emissions and an enabler of net zero, we recognised the importance of committing the company to a robust decarbonisation pathway. We had a call prior to voting to understand their plan – targets, capex, disclosures and lobbying – in detail, and share our expectations
Result: Resolution passed, 97.67% for
Wider response from issuer and other shareholders: We were the only investor to request a call to go through this particular resolution. But it was clear that from wider engagement on climate, investors are satisfied with the transparency and progress from baseline to a 2025 target
Impact of the vote on the company: While only advisory, the overwhelming support means that the Strategy items will continue to be areas of climate focus: 'Impact' revenues, reducing own and customers' emissions, and greater circularity and supplier and employee engagement
Steps to be taken in future if we're not satisfied with the result: Now that a dialogue has been established, we are due to discuss the cash flow impacts of this Strategy with the company in November 2023, and will likely have another call ahead of the 2024 General Meeting should climate feature. If we are not satisfied with either, this will become a subject for more focussed engagement

Vote Example #2

Resolution: Approve Stretch CEO LTIP at Cairn Homes, August 2023 (item #1)
***Our Vote*: For**
Rationale: We believe that the CEO has been instrumental with respect to the development and execution of strategies. Cairn has delivered growth and returns which is supported by HOLT's analysis.
Result: Resolution passed, 68.11% for
Wider response from issuer and other shareholders: Even though the vote won by majority, 32% of shareholders voted against it. The company stated that they extensively engaged with shareholders which resulted in adjustments to the proposal
Impact of the vote on the company: While it is still early to view the impact of the result, the proposal should ensure that the CEO is incentivised to increase growth and return on equity targets.
Steps to be taken in future if we're not satisfied with the result: The issue would become a subject for more focused engagement. We would send an email to the company indicating our reasons against the resolution. If the resolution consistently appears at future meetings, we would have planned an engagement strategy

Vote Example #3

Resolution: Directors be authorised to allot equity securities at Record, July 2023 (item #14)
***Our Vote*: Against**
Rationale: The company had previously raised money and had net cash on the balance sheet. Thus, we believe that the company does not need to raise more than the standard 5%
Result: Resolution passed, 99.88% for
Wider response from issuer and other shareholders: The company indicated that there were no current plans to allot shares, but they would like to have maximum flexibility with respect to the management of capital resources
Impact of the vote on the company: Depending on the allotment of shares, this may be viewed as a corporate governance issue by some investors. However, this is not the case as 99.88% of shareholders voted for this resolution
Steps to be taken in future if we're not satisfied with the result: We would continue to vote against this resolution unless our stance has changed due to circumstances. The resolution does not fundamentally change the investment thesis of the company. Additionally, it does not flag any corporate governance issues

Vote Example # 4

Resolution: To declare a final dividend of 1.6 pence per share, September 2023 (item #2)
***Our Vote*: Against**
Rationale: We believed that employing buybacks would be a better use of capital as it is more flexible than dividends
Result: Resolution failed, 64.65% against
Wider response from issuer and other shareholders: We discussed the resolution with other shareholders which provided an idea that there were shareholders in support of it
Impact of the vote on the company: There would be less flexibility with capital use which would limit the use of cash for other investment opportunities or when financial conditions deteriorate
Steps to be taken in future if we're not satisfied with the result: We would collaborate with the other shareholders to share views on the resolutions

Vote Example #5

Resolution: Approval of Remuneration Policy and CEO pay, April 2023 (item #3)
***Our Vote*: Against**
Rationale: Even though the company has strong operational performance, we believe that growth, strategy and visibility can be improved.
Result: Resolution passed, 43.73% for
Steps taken after voting against: We emailed the company about our reasons for voting against the renumeration policy which included feedback on addressing investors and market concerns. Currently awaiting feedback and then next steps

Vote Example # 6

Resolution: Authorise issue of equity without pre-emption rights, April 2023 (items #8 & 9)
***Our Vote*: Against**
Rationale: The issue of equity shares included 15% without pre-emption rights which exceeds our limit for pre-emption rights of 5% (in our V&E policy). Additionally, the company had a high cash level which is reserved for acquisitions. However, there were no acquisitions. The company did distribute some of the cash to shareholders.
Result: Resolution passed (voting metrics not posted by company)
Steps taken after voting against: As we continuously vote against pre-emption rights, we held a discussion with the company to share their views. We recognise that the standard for pre-emption rights has increased to 15%. Based on the new standard and views, we will reflect on revising the pre-emption rights percentage in our policy

Exercising Rights In Private Markets

While all the above applies to listed equity, there are of course rights and responsibilities in other asset classes to protect and exercise. Typically, these are covenants and contractual obligations in term sheets and other shareholder agreements that account for these assets being private and less regulated, covered by less data, less liquid and held for longer. Rights we have in Development Capital, Healthcare Ventures and Energy & Infrastructure can include:

- A right to appoint a director to the board of the investee company to monitor the investment – where our investment stake is smaller, we would typically take either a right to appoint a director or an observer to the board (depending upon the maturity of the company and the existing board)
- The right to receive regular financial and trading information, including management accounts and cashflow forecasts in order that we may compare these against the investment business plan
- As a fail-safe to deal with situations where we either receive incomplete information or have concerns as to its accuracy, we have further rights to appoint an external accountancy to undertake a review of the systems and processes of the investee company
- Downing's consent is required to undertake key decisions affecting the company, such as material expenditure outside the agreed budgets as well as corporate actions such as changing the rights attaching to the shares. We have further veto rights over actions which may prejudice the EIS and/or VCT qualification status of the investment in order to protect our investors' positions
- In addition to the contractual consent rights, we also require in most investments that an investor representative is added to the bank mandate in order to prevent any abnormally large payments from being paid by company. This is a general request as an anti-fraud measure and not specific to a particular investee company
- The management team are required to agree to restrictive covenants, preventing them from acting in competition with the company should they no longer be employed by it. We also check that any intellectual property rights have been properly assigned to the company and are no longer vested personally in the management team
- Whilst the capital structure of our investments varies from company to company, we typically aim to protect our investors in a downside scenario by requiring that any proceeds of sale are disproportionately paid to investors rather than the entire shareholder base. Whilst these investments remain high risk, this assists to maximise the recovery should the investment not be as successful as anticipated

We also require:

- Compulsory transfer (or "leaver") provisions, enabling us to claw back some or all of the equity held by management in circumstances such as them being dismissed for cause of committing fraud. This allows the equity to be used to incentivise any replacement members of management
- Drag along rights so that a sale can be delivered if a majority of the shareholders (including the investors) wish to exit
- Tag along rights, allowing us to participate in any exit enjoyed by other shareholders
- Co-operation of management teams in proving data to be onboarded for reporting greenhouse gas emissions

Examples

Through board seats (either full or advisory) as a requirement of our investment and exercising a combination of the rights above, examples of outcomes in this period include:

- Debt provided to a technology infrastructure enabler lead to decisions including emissions reporting and targets, and TCFD climate disclsoures.
- Consideration of human rights in supply chains for solar photovoltaic materials.
- A positive human impact through this ongoing investment: https://www.downing.co.uk/insights/downing-ventures-supports-4-6-million-investment-in-open-bionics-creator-of-the-hero-arm