Stewardship at Downing LLP

March 2021

Introduction

As a signatory to the PRI since 2019, central to Downing's ethos is a commitment to be a "Responsible Investor". Our responsible investment approach is one of active ownership and we therefore regard stewardship as a core part of our investment process and one of the main ways in which we add value as a firm. This is reflected in our firm-wide Responsible Investment Policy, which sets out our objectives and approach to investment and ownership. Despite being a smaller firm with only £1.35bn AUM, Downing fully supports the UK Stewardship Code and complies with its principles and so for the first time is applying to be an FRC Stewardship Code signatory.

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

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.

Downing's overall purpose is to make investment more rewarding: by being profitable for our investors, supportive to the businesses we fund and, through their success, ultimately rewarding for society.

Our investment ethos, together with our guiding principles and objectives, have been documented in our firm-wide Responsible Investment Policy, which has been recently reviewed to reflect our learnings over the last year.

We aim to protect and enhance returns for our investors by placing Environmental, Social and Governance (ESG) criteria at the heart of our business and investment activities. We understand that ESG issues represent risks and opportunities; and that these issues are becoming an increasingly material factor with investments. Therefore, like any responsible investor, our firm-wide focus over recent years, has been in broadening our criteria when assessing risks and opportunities to adequately integrate ESG considerations.

By taking a long-term, sustainable approach with our analysis, decision-making and stewardship, we strive to take these into account, mitigate risks and maximise opportunities, which we believe will ultimately result in value creation for our investments and our clients.

As a partnership, we work for the benefit of our members, but also strive to have a broader positive impact and we hope to be recognised as a B-Corporation in 2021.

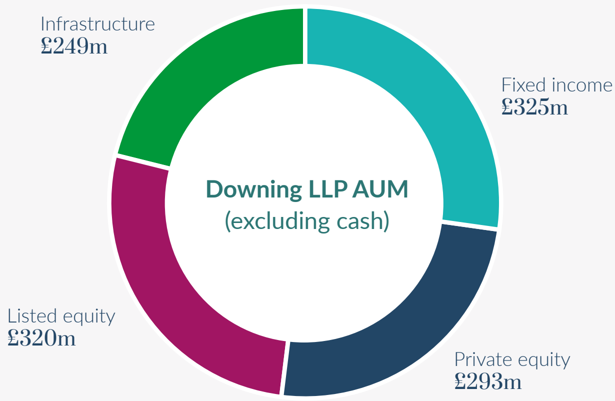
Despite having grown to over 150 employees, our culture remains entrepreneurial. We encourage our people to be bold and ambitious, but to also recognise that our business does not operate in isolation. Investment decisions must be made based on a broad understanding of all the material risks and the opportunities, hence we have integrated ESG throughout the investment lifecycle. We are continually evolving our communications to be increasingly transparent. Hopefully these values will come across in this stewardship report.

Downing's diverse assets under management

Downing is a firm with a diverse range of investors and assets under management. As a result, our investment mandate varies across funds and products, and so, therefore, must our approach to stewardship.

With a little over £1.3 billion of assets under management , this diversity does add to the challenge of being active owners, engaging with management teams on investments that range from as little as £250,000 to as much as £50 million.

A breakdown of assets under management (excluding cash) based on the PRI classifications is shown below.



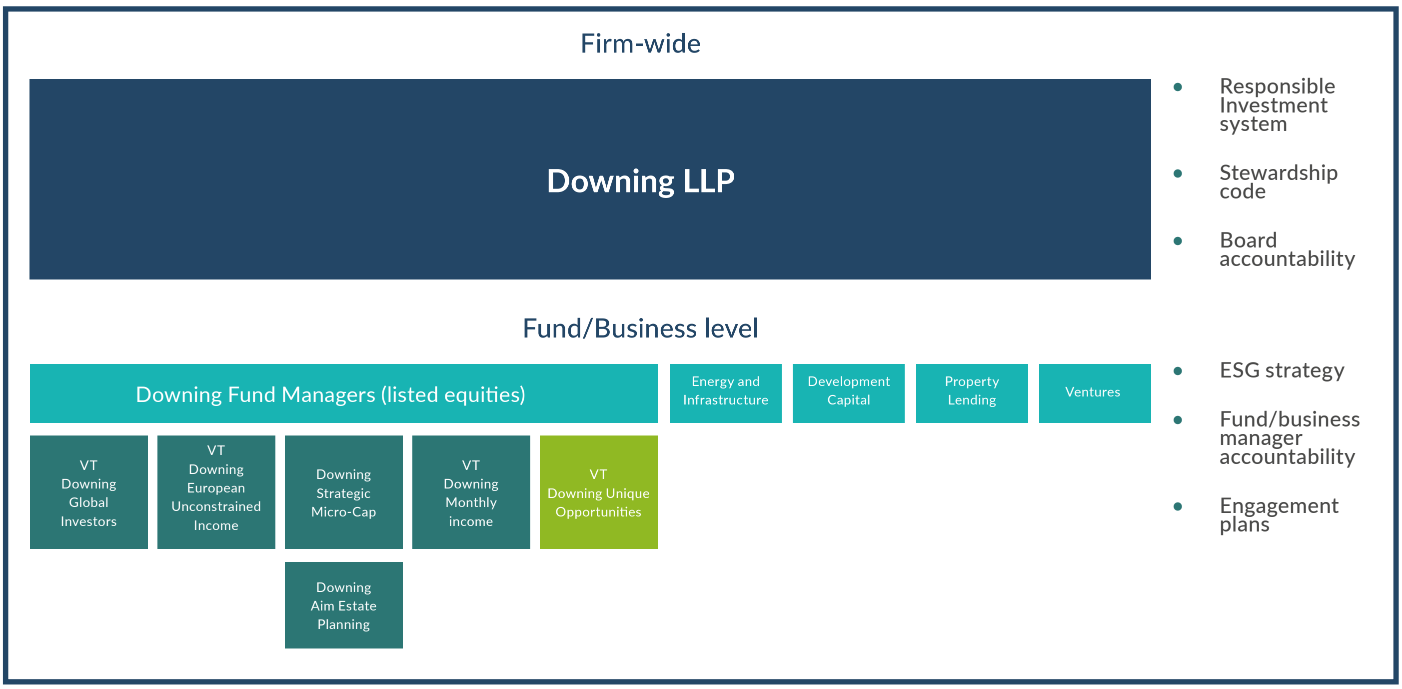
Our typical investment length by sector is shown below:

Ventures	5-7 years
Development Capital	1-6 years
Energy & Infrastructure	5-10 years
Property	1-2 years
Listed equity	2-5 years

Our level of influence can therefore vary significantly from asset to asset, and consequently so will the resources that we can apply to a given investment. Our approach is focused on finding efficient ways to manage the most material risks and opportunities in a way that is proportionate to our holding.

With this in mind, under the umbrella of our firm-wide Responsible Investment Policy, we have adopted a dynamic approach to stewardship, developing dedicated ESG strategies that provide efficient and effective stewardship to each of our investment businesses taking into account their specific considerations.

These have proven to be successful in promoting good stewardship and achieving long term value, as outlined in the following pages.



Downing Fund Managers (DFM)

Headed up by Judith MacKenzie, DFM is a boutique of seven funds that invest in listed equities with over £300m of funds under management as at 31 December 2020. With the exception of the VT Global Opportunities fund (DGI: £33m FUM, and just over 10% of DFM), all funds all are actively managed, with many of the fund managers taking a private equity approach to public equity.

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

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

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

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

As long-term active owners, the majority of our work with the portfolio companies is post investment as we seek to protect and enhance value through our engagement with the businesses. As investors in smaller listed companies, our aim is to support them through their own ESG journey, that leads them to a long-term sustainable business model, with adequate disclosures.

Energy and Infrastructure

Most investments in this division relate to renewable energy generation. As a sector, this has been a core focus for Downing for more than a decade, with more than 140 investments over the period, and is fully aligned to our responsible investment strategy and ethos. Our strategy is not only supported by this inherent alignment of the sector to ESG and positive sustainable outcomes, but it is also our firm belief that strong long-term returns can be achieved given the wide political support for renewables as targets for reaching net zero carbon by 2050 get implemented throughout Europe and further afield.

Late 2020 saw an IPO for the Downing Renewables & Infrastructure Trust (DORE), which has a strategy to invest in a diversified portfolio of renewable energy and infrastructure projects in the UK, Ireland and Northern Europe with the objective of achieving stable and sustainable income for investors. The trust was awarded the Green Economy mark on listing at the London Stock Exchange in December 2020. DORE's strategy is mainly directed to investments where the Trust retains a controlling interest, with minority stakes limited to a maximum of 25% of Gross Asset Value. It is intended that assets will be held for long term. This allows us to implement an active stewardship approach to our assets, which we believe will generate value for our investors. So far, investments from the Trust have included eight operational hydropower assets in Sweden and a portfolio of c. 50 solar PV installations in the UK.

Downing also manages a portfolio on behalf of Bagnall Energy Limited. This consists of around 40 different subsidiary companies offering renewable energy generation and energy infrastructure solutions spanning the solar, wind, hydropower, anaerobic digestion and reserve power sectors.

Development Capital

We invest in asset-backed companies mainly focusing on elderly residential care homes, education, pubs, and hotels; that is, trading businesses operating from freehold properties. We look to partner with management teams whose ethos, beliefs and interests are aligned to ours. We help them realise their growth plans by providing them with flexible solutions for their capital needs. In addition, we assist our partners by leveraging our extensive sector knowledge and experience in building businesses, including ESG considerations, to support enhanced value creation. However for Downing, as with most investment houses, 2020 was a challenging year and the main focus of the Development Capital team over the last 12-18 months has been on protecting rather than enhancing value. (See Principle 4.)

Property Lending

Downing make loans of up to w years to residential property developers in the UK. These tend to be smaller schemes, our average loan size is currently just over £3 million with a maximum loan to gross development value ratio (LTGDV) of 70% across the portfolio (current weighted average just under 65%).

Stewardship can be challenging in this area of our business, as we are short-term lenders rather than owners. However, we are aware that the UK property market is well regulated from an ESG perspective; and notwithstanding any challenges our position may present, we are committed to raising ESG standards over time within the smaller end UK development sector. Not least to keep apace with changing building regulations and planning requirements as the country works towards Net Zero.

We assess the ESG compliance and aspirations at both developer and project level. In this context, we have introduced a tiered system to ESG integration so that there is both a minimum standard and an aspirational set of criteria which should pave the way to a voluntary certification to HQM, BREEAM or other equivalent standard to satisfy both investors and in due course property owners that their homes are designed taking environmental and social considerations into account and are fit for long-term occupancy.

Of all the products that our investee companies bring to market, property has the longest 'shelf life' and we see this as an area of significant potential impact going forwards, particularly from an environmental and social perspective. By working in close partnership with our institutional funders and progressively stepping up our expectations with developers we believe Downing can help raise the standards of the smaller homebuilding projects.

Ventures:

The majority of our venture investments, particularly those funded by Enterprise Investment Schemes, tend to be in industries that are addressing current and future consumer trends, working with new technologies and in new markets. The companies rarely have any tangible assets and so are less likely to have major balance sheets where assets may be overvalued.

As well as leading investments, Downing will often co-invest with other top class venture capitalist 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 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 which is aligned with our ESG beliefs.

Our Ventures team focuses on three main sectors:

- Deep tech
- Software as a Service
- Healthcare

Here our level of engagement and stewardship is at its highest and we often play an active role in coming up with solutions to challenges that the investee companies face. Our team members enjoy opportunities to compare views with their opposite numbers in co-investment firm, debating value and growth strategies. But we know that our main value add and the differentiator versus the other sources of money out there is how we work with investee companies.

Principle 2

Signatories' governance, resources and incentives support stewardship.

Resources

At Downing, we believe in meaningful ESG integration throughout the entire lifecycle of our investment process. Stewardship and engagement are conducted by all our investment professionals, supported by specialists as and when required, with oversight from the board. The combination of our fund managers' extensive experience, with external research and support ensures that engagement focuses on material issues that produce positive outcomes and protect and add value.

Incentives

To ensure our people are incentivised to really engage as active owners, we have recently added additional governance, social and environmental objectives to our system of objectives, assessment and ultimately compensation.

Our CEO, COO, Head of Quoted Investments and Head of Unquoted investment had new criteria added to their key performance indicators relating to the ESG performance of their portfolios. We plan to extend this to all fund and investment managers from the next Downing financial year, starting 1 June 2021.

Governance

We recognise that along with knowledge and incentivisation, ongoing oversight of stewardship is important. We believe that successful stewardship depends on clear accountability at a senior level.

At board level, our COO James Weaver has clear accountability for successful ESG integration. In addition, each of our investment businesses has a Partner who heads up the business and owns both the P&L and the responsible investment strategy for their business.

For our Unquoted funds, our investment committee offers an extra layer of governance,

as no new investment is signed off unless adequate consideration has been given to ESG factors. The Head of Unquoted investment further has an ESG veto to block any investment where he/she perceives there are any ESG risks that Downing would not be able to adequately manage or mitigate.

The area where we feel governance structures are the most vital is in listed equity. This is because our level of influence and access to information is likely to be lower. Hence, we have implemented a Voting and Engagement Policy that sets out clear guidance on our positions. More details on our governance of Fund Managers can be found under Principle 8 below.

We also regularly review our Responsible Investment Policy as we will this Stewardship Code Statement to ensure they remain current for our evolving business and best practice in the industry.

Training

To ensure that all our staff come to understand their role and potential impact, we have set up an ESG education programme that is tiered for different types of role.

Every Downing employee is required to complete the Thomson Reuters Introduction to Corporate Social Responsibility and ESG Investing. This is an entry level course which is aimed at establishing a common understanding of the key ESG related terms and principles and allows us to engage with our own people on what good governance and fiduciary duty looks like in the current times. Members of the investment or portfolio management teams may also opt to undertake the BVCA's Responsible Investment training module.

The next level of training is a choice of either the PRI Foundations in responsible investment or the CFA Level 4 Certificate in ESG investment, which we have assessed as suitable for investment managers, fund managers and product designers.

Once the basic training is in place, we plan to run more targeted workshops on topics and tools, such as:

SASB materiality mapping, analysis and reporting

The Sustainable Development Goals and mapping the lifecycle of businesses and funds to identify the potential impact on the SDGs (both positive and negative).

Climate change and how to conduct and interpret scenario-based analysis.

Principle 3

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

Downing's Conflict of Interest Policy, (last reviewed in March 2020), applies to the firm and all its employees (including contractors), as well as all of the firm's activities and processes.

Where possible, we seek to find ways to avoid conflicts of interest. However, we accept that such conflicts of interest may arise from time to time in the course of our operations, including those between:

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

According to the policy, Downing will take all necessary steps to identify, prevent and mitigate the conflict, including, where necessary, withdrawing from a transaction.

To enable appropriate management, our Policy describes the circumstances that could constitute or give rise to a conflict of interest (including providing examples, such as personal dealings by a given employee, outside of business interests, such as other directorships held by employees, inducements, privileges or advantages taken by employees, etc). We fully respect the confidentiality of some information relating to our employees, but which may be relevant to conflict of interests as defined in the Policy. We have consequently put measures in place to guarantee this confidentiality, including the operation of a "Restricted List" which is managed by our Compliance Team.

Our Policy further sets out the processes, procedures to identify and manage conflicts of interest in a fair and effective manner.

In accordance with the Policy, training is provided to all employees to allow our staff to identify conflicts of interest during their day-to-day business activities. We have also established a Conflicts Committee that evaluates and considers the situations which can give rise to potential conflicts. Based on their review, the Committee determines if the conflict is being or proposed to be appropriately managed, outlining any actions required. There are regular meetings of this Committee to review and monitor the management of conflicts previously reviewed and escalating to the Board where necessary.

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.

Downing has implemented internal controls to mitigate and manage conflicts of interest. These have been incorporated in the investment manual which is made available to all our investment professionals.

Under our established process, the Chairman of the Investment Committee is responsible for ensuring that due consideration has been given to potential conflicts of interest relating to individuals or funds in all transactions. When a conflict of interest arises between the Funds and/or Downing, Board and Conflicts Committee review of the conflict and approval of the proposed way forward is needed. The investment team member leading the deal notifies the Board and the Conflicts Committee of the nature of the conflict of interest. This gets appropriately documented in the Investment Paper, which clearly explains the nature of the conflict and if/why Downing believes all parties are being served. It further states the need for Board approval following consideration of the interests of the relevant fund.

We acknowledge that some Directors are involved in more than one fund and may be potentially conflicted themselves. Prior to completion, it is necessary to obtain written approvals from all of the participating fund, preferably from the Chairman of each fund.

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 to the client (or any third party).

Principle 4

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

Downing is an active member of several national and global investor networks, alliances and trade bodies, through which has access to thought leadership pieces on market-wide and systemic risks. Through our participation and collaboration, we aim to have our say in these discussions as well as promote good practices which lead to mitigating or reducing any market exposures.

A recent example of this was our participation in UKSIF roundtables to come up with a policy vision for sustainable finance in the UK. This was an opportunity to collaborate with our peers and competitors on how government policies and regulations need to evolve to accelerate the transition to a Net Zero Economy. This is likely to have a material impact on our business over the next five years. For example, the proposed revisions to building regulations and planning requirements to improve the efficiency of homes and prepare for the electrification of heat could present a risk to developers if they are not aware of emerging standards.

As an investor in AIM listed companies, we are aware that these smaller companies often struggle to keep up with governance matters. Our Head of Unquoted Investments Judith MacKenzie has served as a Director of the Quoted Companies Alliance since 2015 and Downing LLP has sponsored three different studies into good governance culminating in a 'How to' guide written by the QCA based on some research by the Henley Business School which is scheduled for publication in April 2021.

In addition to Judith's expert input, Downing's part funded the research, provided case studies that can serve as examples on pragmatic advice for boards and will also host the launch event. Our aim is to help these companies step up their governance to standards widely accepted by investors.

Below is an article on this launch:

https://esgclarity.com/smaller-companies-failing-to-effectively communicate-esg/.

As stated above, we have also been members of the PRI since 2019, this provides us access to a forum of discussion which identifies ESG risks and seeks to share good practice on how to address impact from these risks on the financial sector.

An example of this has been climate change and how this may impact portfolios. Downing is a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) and has taken published advice from the PRI on how to best incorporate these matters into our diversified portfolio, while promoting the disclosure of climate risks and mitigation more widely. As part of the launch of our Downing Renewables & Infrastructure Trust, we have participated in numerous debates on the role that renewables investment plays in meeting our national climate change targets.

As must be the case with most investors globally, 2020 was dominated by COVID-19 related challenges. Our exposure varied across our portfolio, with some sectors evidently more resilient than others.

Our most impacted business unit was Development Capital, as it focuses on investment into hospitality (including pubs and, hotels) and care homes. As active owners, it was an intense year of working closely with management teams to minimise the impact, protect their assets and maximise the chances of getting back to business case performance post pandemic. Downing held a portfolio review of those businesses considered most susceptible to the impact of Covid-19 on the trading environment to ensure all views had been considered in the approach being adopted. In a number of cases, we had to remodel cashflows and negotiate variations to terms to ensure both investor's value was protected and be fair to the SMEs and help their businesses survive.

In the months following lock-down, Downing also produced a 'Covid-19 Prompter' for our investee businesses, which was a document pulling together the range of government schemes and guidance plus professional advice in respect of how businesses could deal with the impacts of Covid-19. This ensured up to date information could be disseminated equally amongst the investee companies that we support in an efficient manner.

For our healthcare businesses, where we held a board position, the frequency of communication and board meetings increased and enhanced our tracking mechanisms to monitor suspected or confirmed Covid-19 cases amongst residents and staff. Downing staff attended management's operational updates multiple times per week to ensure there was no delay in identifying issues that required action. Overall, our elderly residential care homes exposures have generally held up well despite the operational pressures that arose. One of the two biggest groups we are working with is led by a respiratory consultant doctor, which provides reassurance around clinical oversight. The other has an enviable senior leadership team, which was bolstered earlier this year with the recruitment of the former Operations Director for BUPA's hospitals and clinics. Although some of our homes did experience Covid-19 infections, all of our investments are in modern purpose-built assets, which are better placed to manage infection control than many of the smaller outdated homes in the market. Therefore, outbreaks have been well contained where they have arisen. At the height of the pandemic, we saw the NHS and local authorities buying beds but a stalling of demand from private pay residents. Private pay demand looks to be slowly returning with an increased number of enquiries and admissions. Government support (which varies across England and Scotland and even at a local authority level) has also helped offset some of the increased costs.

For our hospitality and leisure related businesses we have had to work quickly to respond to the Government's lockdown and forced closures. Significant time was given to financial forecasting and scenario planning for a range of outcomes. We wanted to ensure the investments didn't just have the cash required to survive lockdown but also to recommence trade when able to do so. In most cases the impact has been manageable, particularly in light of the furlough scheme and other Government initiatives aimed at reducing costs and increasing trade.

For our Energy and Infrastructure Funds, we have seen two opposing dynamics. On the one hand operational performance of renewables has outperformed targets despite disruptions to supply chains and travel restrictions. We are fortunate that our asset management is performed in-house with a set of state-of-the-art systems and processes that we have implemented at considerable expense over the last 24 months. This has enabled most of the asset management tasks to be able to be conducted remotely without significant disruption and has enabled us to continue to actively manage the projects. On the other hand, financial performance was slightly down as a result of the impact of COVID on energy demand and therefore energy prices.

Our Property lending team saw a short closure of sites at the outset of the pandemic, which caused some delays to development and cost overruns. During this period, we not only kept constant contact with borrowers to understand the position on their sites, but we paused bond fundraising for several months until we had completed a thorough review of the portfolio.

Since lockdown was eased during the summer of 2020 construction sites have remained open and construction activity has increased significantly. Therefore, we are not anticipating any significant impacts though we are closely monitoring government policy such as temporary reductions on stamp duty as these could have a material impact on the residential property market and our ability to exit investments.

Our Ventures team identified sectors that were likely to be hit hardest within their portfolio and worked closely with the businesses to design cash and funding plans. The team also focused on deploying resources on investment opportunities created during the pandemic. We were one of the few firms to make significant progress during this time of distress, which has resulted in an overall good performance by the team.

Principle 5

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

Downing first became a signatory to the Principles of Responsible Investment in 2019 and so we are at an early stage of formalising policies and processes that reflect our RI integration into our Stewardship approach. However, these are based on our inherent philosophy on RI which has been an integral part of Downing since its inception.

We review our Responsible Investment Policy regularly to ensure it remains relevant and continue to follow best practice in the industry. In practice the firm is constantly evolving its thinking, so it is likely this review will happen annually for some years to come, both to keep raising standards and to reflect changes that have been made in the way we work day to day. This combination of a top-down and bottom-up approach is very true to Downing's culture, and experience has taught us that it is key to sustaining new practices.

The latest version of our Policy dates from February 2021, where we strengthened our approach to stewardship and integration of ESG in line with the initiatives that have taken place at Downing during the last year and set ourselves five goals for this year:

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

The challenge for a business as diverse as Downing, with investments as small as £250,000, is ensuring we focus our efforts in the areas where we can be most effective in protecting and enhancing value. To successfully achieve this, we must ensure our policies and processes are lean, efficient and support our diverse range of investments.

In this context, we recently reviewed our company-wide Responsible Investment strategy (policy plus supporting processes and documentation) and we realised that, in order to improve the effectiveness of our stewardship, this strategy together with its underlying processes and procedures needed to be adapted for each of our investment businesses. Consequently, we are in the process of developing dedicated underlying ESG strategies, protocols and tools for each of our business units. This will ensure that our stewardship in each of those units is best placed to ensure value protection and creation. This extends to our approach to negative screening, as this varies significantly by business. For example, our approach to negative screening varies significantly by business. In some cases such as Bagnall Energy Ltd. the portfolio includes investments in transition technologies such as gas peaking plants, whereas other funds have a red line on any fossil fuels.

In the first quarter of 2021 we have also reviewed our pre-acquisition ESG questionnaires and checklists for our Property, Ventures, Energy & Infrastructure and Development Capital teams. The rationale here was to ensure these were proportionate and focused on potentially material risks in their respective areas – as the level of understanding of ESG in the business increases, so does the sophistication of our investment teams' views on risk. However, we have gone further for the Property ESG questionnaire and turned it into a tool for engaging with developers on the key issues. By explaining why we are asking the questions and providing links to guides and templates, we hope to prevent this becoming a tick box exercise. We also believe it will help us build understanding and capacity with our portfolio companies.

We have also significantly progressed our systems review with our listed equity division, with noticeable positive results, including better documented engagement plans, which in turn have allowed for more efficient interactions with the businesses we invest in, with a focus on company-specific material matters. These changes reflect the nature of the listed companies we invest in (small AIM listed companies) and the challenges they face in balancing public and investor ESG expectations with relatively limited resources (particularly when compared with some of the larger companies).

The above review process coincided with the Financial Conduct Authority's announcement of a roadmap for climate-related financial disclosures. Whilst we have around 12 months to prepare for our first report, now is the time to identify climate-related risks and disclosures relevant to each business unit, and establish metrics are targets to support future reporting.

Given our progress over the last year on ESG integration, we already have Environmental risks integrated in our firm wide risk management system, but it will nevertheless take a concerted effort to be ready to report in September 2021 which is our target for Downing' first TCFD guideline compliant annual report and accounts (one year ahead of the FCA requirement).

In all areas we know that only experience of applying our strategies will tell us where they need to be evolved further. We have seen a step change in the interest and enthusiasm of our staff over recent months which bodes well for continuous improvement going forwards.

In all of this, we count on the support of a specialist ESG advisor that further provides us with insight into potential improvements, as well as benchmarking against market best practice.

Principle 6

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

Downing is a firm with a diverse range of assets under management and investors ranging from multinational institutions to retail customers making their first investment.

Therefore, the needs, objectives and risk appetite of our clients and beneficiaries vary greatly from one business unit to the other.

For example, the vast majority of our Ventures money is raised via EIS and VCT funds where retail customers invest as little as £10,000. They are typically advised by Independent Financial Advisers and our investors are motivated by the potential for capital growth but also the 30% tax rebate in the UK for qualifying investments. These are riskier earlier stage businesses, so our clients assess returns at a fund rather than an individual company level.

In contrast, our property lending and development capital businesses have a very different investment mandate. Here the majority of funding comes through the Downing Estate Planning service where the investors want to preserve capital and be able to leave it to their beneficiaries without them having to pay any inheritance tax. In this case, as investment managers we adopt a much more risk averse approach and target more modern returns of 3-4% p.a.

Our flexible approach to ESG strategy building means we can easily adapt to any demands of our investors in any given funds, including increasing the level of exclusions applied to a given fund for a more risk averse, ESG aware, set of investors.

Whilst we count both investors and Financial Advisers as our customers, most of our communication is via advisers. In practice, to many of the end investors Downing is just one of several product providers – advisers would typically recommend that they invest across several schemes to diversify their risk. Knowledge of and requirements around responsible investing in retail investors are notably less mature than with Institutional Investors. However, we believe this position is evolving and we aspire to offer thematic ESG funds in the future: as with all new products, however, we would need to assess the level of demand before this could go to the Product Governance and Distribution Committee.

We continuously engage with clients and advisers through a variety of means, although we acknowledge that over the COVID period such engagement has necessarily been focused on solving immediate problems rather than surveying future needs.

Downing Fund Managers speak to their investors at least twice a year and occasionally, our clients will also want us to respond to dedicated questionnaires. However, we are seeing an evolution of this towards a position where clients want to have a more informal conversation where they explain how their position may be evolving and we present our approach to stewardship and ensure there is full alignment between the two.

DFM also conducts roadshows where we present our investment philosophies and services and solicit feedback from our investors on how they feel we are investing their funds. In addition, Board members of some funds will also proactively contact investors to solicit their views on fund strategy and performance.

We periodically conduct surveys amongst advisers to better understand clients' overall objectives and expectations. The last ESG survey was conducted in 2019, where the overall message was that appetite for ESG is growing amongst our investors.

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 continuoulsy improve our customer service.

We also use Trustpilot, where we collect satisfaction scores after contact with customer services. This was set up for our online direct-to-consumer investment platform where at the time of writing we were scored 4.7 out of 5.

Unfortunately, we do not always get it right. If for any reason our service does not meet customers' expectations, we have 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 which is overseen by our compliance department.

Investor reporting

In 2020 we redesigned the annual report and accounts for Pulford Trading and Bagnall Energy Limited, which at the time were our two largest portfolios. These are now written in more user-friendly language and for the first time they include a dedicated section on responsible investing. Levels of disclosure will only increase over time.

As we become more transparent in how we communicate with our investors, 2021 will see our inaugural Downing LLP ESG report, which will review our different funds and our key achievements and performance for the year by Strategy. Separately, we will also be issuing a dedicated Voting and Engagement Report for our listed funds.

The COVID pandemic has necessitated a significant change in how we communicate with advisers, many of whom our Business Development Managers would normally be visiting in person. Whilst we miss the face to face time, and would like to get this as soon as possible (relationships are key to Downing's strategy and success), we have found that webinars to be an invaluable new tool.

In addition to us considering our clients' needs, many advisers want to understand in great detail what is happening with investments, particularly when the outcome has not met expectations. Here they want to know what has gone wrong, why and what measures are being put in place for it not to happen again.

We therefore brief advisers shortly before we issue the end investor reports, and also engage with advisers on an ad hoc basis as issues arise.

Our network of IFAs not only play a vital role in relaying information back to investors, but they are constantly evaluating our performance against competitors. Therefore, we are aware of how important it is for us to make appropriate disclosures in relation to stewardship and responsible investing.

Our proactive approach to communication as explained above has been well received and resulted in better retention levels for our customers as evidenced in the case study below.

Case study

Client Engagement & Transparency | Project Atwood

In February 2019 Downing agreed to take over the management of an Estate Planning Service that had run into difficulty.

The fund had been gated over a year and a half, during which time there was no update to the valuation of assets, despite a number of issues arising within the portfolio during that time. Investors were frustrated that they had not had access to their capital for a protracted period of time, advisers were unhappy that they had not been receiving their fees, and both were fed up with the lack of communication.

At the point that Downing took over the service, customer satisfaction levels were already very low, and this was exacerbated when we conducted our own valuation of the assets in the portfolio in conjunction with several independent third parties. The valuations were dramatically lower than the last valuation provided by the incumbent investment management firm, in some cases the drop was close to 50% since their initial investment. And this was on a product that should have had capital preservation and income generation as its objective.

Our priorities were to:

Improve the levels of communication and transparency to help advisers and investors understand the various causes of the loss of value.

Protect the business relief on the underlying companies (and so protect the investors from inheritance tax) which was the main selling point for the service.

Rebuild relationships and trust and so retain as many investors as possible – no mean feat when they had lost so much money and simply didn't understand why.

Whilst this was a significant undertaking, it was the communication with investors, advisers and the regulator that turned out to be our greatest challenge.

Firstly, the data that we received from the incumbent was inaccurate and out of date – this meant that we had to check each investor's information, connect them to the right adviser and import that data into our system.

Secondly, the investor base was elderly and in fact there were a number of deceased investors – the executors for whom were particularly keen to get access to capital.

The communications programme that we set up included webinars for advisers which were supported by transcripts, FAQs for our salesforce to deal with additional queries from advisers and letters to the investors themselves at each stage of the process.

The communications to advisers were very detailed and included a value ladder showing for each of the underlying companies what the contributing factors were to the loss of value. We believe that this was a level of transparency that the IHT industry had not seen before, but as our number one objective was for people to understand what had happened to valuations, going into such a degree of detail was essential.

We ungated the fund in Autumn of 2020 and are delighted that we have only had £4.2m of withdrawals so far totalling 13% of the fund. 90% of investors have now migrated across to the Downing Estate Planning service. We see this as a real achievement by our Product, Marketing and Sales teams, supported by the investment leads and we were pleased to see a small increase in the value of their holdings in the last quarter.

Principle 7

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

One of the key principles of our Responsible Investment Policy is integration. As a firm, we are committed to integrating ESG within the investment lifecycle as reflected in the diagram below.

In doing so, we are further committed to ensure this happens in a structured manner, which seeks to systematically and effectively apply the commitments made in our Policy and focuses on material ESG matters.

We acknowledge that to achieve full integration, ESG consideration needs to adapt to the way of operating, needs and challenges which may differ amongst the various investment funds and businesses that make-up Downing's business.

We have actively engaged with each team to understand how best ESG could be integrated into their operations while respecting the overall Downing approach. This has been incorporated into their respective ESG Strategy which covers each of the points below. The Strategy further outlines how the different E, S and G pillars apply to their strategy.

Review

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

Exit

We will undertake an ESG evaluation on exit and we endeavour to quantify and report on value creation & impact wherever this is possible.

Where pertinent, we will disclose ESG information as part of our divestment package.

Reporting

We are a signatory to the PRI and are setting out protocols for regular reporting on ESG matters to our investors, advisers and other stakeholders.

Product Design

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

Pre-investment

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

Stewardship

We aim to actively influence the ESG performance of our investees, through prioritised action plans and targets

We require compliance with relevant laws and regulations.

We are active voters on listed funds with a clear voting & engagement policy

Each business publishes its own ESG strategy that sets out which Sustainable Development Goals they aim to support and outlines key risks based on the SASB materiality map overlaid with our own sector expertise.

Below is a brief overview of how the firm-wide approach has been adapted for our different divisions.

DFM: Our fund managers identify potential investments that align to our investment strategy. We then use Sustainalytics to complete desktop research on the portfolio companies and any new investment. Unfortunately, approximately 50% of the portfolio companies are not covered by Sustainalytics, and so in conjunction with our ESG consultants Ensphere and internal resources, we carried out desktop research covering a comparable scope to the Sustainalytics tools to achieve 100% coverage of the 7 main funds. We use this information to identify material ESG issues associated with the companies that get discussed with the Fund Managers in dedicated workshops. An ESG Engagement Plan is developed, which is used to guide engagement and track the outcomes of any such engagement.

Energy and Infrastructure: ESG considerations are built into our investment process at all stages. We have developed a pre-acquisition due diligence questionnaire (DDQ) which is bespoke to infrastructure projects (e.g. takes into account the need for Environmental Impact Assessments, community liaison, land use, climate change, etc) and which is used to identify risk and opportunity at an early stage. During the detailed due diligence process, those elements identified are considered in more detail, specific solutions proposed where appropriate and specific monitoring and reporting plans proposed. Following acquisition, our Infrastructure Asset Management division monitors and reports these specific items alongside more general ESG KPIs to our investment team, board representatives and other stakeholders. We have integrated ESG monitoring into our in-house asset management software tools to facilitate this.

Development Capital: We have developed a proprietary pre-acquisition ESG checklist that is supported with suitable guidance to allow our investment professionals to identify material risks. Development Capital includes a diverse range of sectors and assets and given our focus on care homes and specialist education facilities, along with hotels, pubs, wedding venues the social factors take precedence when looking at ESG. The ESG checklist is now evolving into an engagement tool to start a conversation with portfolio companies around changing expectations and emerging risks, relating to both employees and customers. Key concerns around climate change relate to flooding risks for buildings in the portfolio, energy and water consumption on site and managing high temperatures.

Our work in both new construction and refurbishment of existing properties also gives us an opportunity to create modern, energy efficient facilities that will be fit for purpose in years to come and we look forward to measuring and reporting on the impacts of that investment on employees, customers and the environment.

Property: We have developed a dual approach to assessing ESG prior to lending against any development. This covers a developer evaluation (their overall governance performance and approach to sustainable development) and a project evaluation (which confirms that the project meets Downing's minimum requirements and whether any best practice is being applied). 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. Our property division sees a high level of repeat business and we use our development checks and engagement to push for best practice to start filtering through to smaller developers in the UK.

Ventures: Our VC arm deploys funds raised under UK tax efficient investment schemes such as EIS and VCT, therefore these companies are early stage, higher risk and tend not to have any tangible assets or predictable revenue streams. They are also typically technology-based solutions to new and emerging market needs so we are less concerned about stranded assets in this division and more focused on data security, employee engagement, business model resilience and customer privacy. The approach is, however, consistent with the other 3 divisions of our unquoted investment business in terms of process.

Principle 8

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

At Downing, most of our funds are internally managed, which provides us with better opportunities to monitor individual managers and maintain standards.

We have recently set out a Fund Oversight Program to appropriately oversee the investment activities of our listed funds. Downing Fund Managers is responsible for a number of Open-Ended Investment Companies and in addition have investment management responsibilities for one investment trust. Due diligence is required to be performed periodically to ensure that the structure of the company and its relationships are sound.

The table below shows the programme we have in place to manage the activities of our Fund Managers, regardless of how they are appointed. The purpose of the reviews is to ensure that the funds remain compliant at all times, and that we perform horizon and scenario testing of the funds to ensure stability.

In all cases, the detection of an issue is escalated in the first instance to the Head of Quoted Investments in the first instance and recorded so that it may be reported to supporting committees thereafter. These include the Public Equity Risk Committee, Public Equity Investment Committee, Product Governance Committee and Enterprise Risk Committee.

We do use service providers, particularly ESG data providers such as Sustainalytics. We regularly engage with them to understand their research process and how their services can be best applied and integrated into our processes. This has allowed us to align our monitoring to take account of their periodic review process as well as investee company reporting cycle.

Generally, we monitor research annually, with our portfolio split into reporting quarters. However, on occasions we have felt that the service provider research was slightly out of date and we have provided constructive feedback on how the update process of research reports could be improved. We have also commented on changes that they have applied to the content and presentation of the information.

Recently we have adopted the Sustainalytics controversy monitoring tool as a back-up to our own in-house research and analysis. This should ensure that any critical issues emerging are immediately flagged to a wider audience in Downing and not just the individual fund managers themselves.

Fund Oversight Programme

Time Period	Oversight	Function	Responsibility
Daily	Pre-Trade Compliance	To review the effect and impact of individual trades prior to trade commencing.	Public Equity Team
	Post Trade Compliance	To look at the aggregated effects of trading activity to ensure that the fund remains compliant with the prospectus and regulation	Risk & Compliance
	MiFID reporting (Where applicable)	Release of trade notifications to market	Public Equity Team
Weekly	Stock Check	Weekly review of positions against administrator and custody records	Public Equity Team
	Creations and Cancellations	Weekly review of creations and cancellations into the fund, sensitivity analysis performed	Public Equity Team; Risk & Compliance
	Turnover monitoring	Weekly review of all trades in the last week to report costs and charges, and venues used.	Public Equity Team
Monthly	Liquidity	Liquidity review of all investments within the funds. Calculated on average 1 & 3 months liquidity and against 10% and 20% participation	Risk & Compliance
	Value at Risk	VaR calculation performed for month end valuations	Risk & Compliance
	Best Execution	Monitoring of best execution between broker and venues	Risk & Compliance
	Stress Testing	Considering VaR, Liquidity and creations and cancellations, create stress events around these as variables, as well as to standard time period.	Risk & Compliance
	Diversification/ correlation review	General check of diversification within the assets against investment type and sector	Public Equity Team
Quarterly	Expense/ TER reviews	Calculation of expenses against Net Asset Values of funds.	Risk & Compliance
	Benchmarking/ Active Share Calculations	Calculation of performance of funds against specific targeted comparators, and comparison to active share to understand increases and decreases in performance	Risk & Compliance
Ad-hoc	Performance of delegations	Delegations monitored against SLA and KPI targets. Monthly meetings held where required.	Public Equity Team; Risk & Compliance

Principle 9

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

As active owners we are always seeking to engage with our investees to protect or enhance value. Although our level of influence can vary significantly from asset to asset, we strive to apply a private equity approach to active management to most of our funds.

Private equity & fixed income

Our unquoted funds have direct access to management and for most investments we have a significant shareholding position which provides us with a strong level of influence. However, we tend to apply a collaborative approach to engagement by working with management (rather than management working for us).

2020 saw the unprecedented challenge of the global pandemic as outlined above, which was devastating for the hospitality industry. Many of our operational businesses saw dramatic drops in income during this period and a planned exit of a portfolio of pubs was cancelled just hours before we were due to complete.

Our development capital team took a very hands-on approach to reforecasting numbers and responded quickly to review every single asset in the portfolio, in some cases agreeing to variations of terms to allow the business time to recover post lockdown. The mix of assets under management was primarily Care Homes, Hotels, Pubs and Wedding Venues some of which are funded by loans. Had we not renegotiated terms there was a real possibility that the businesses would have gone under eroding significant shareholder value.

Where we have direct investors, for example through Downing bonds, we updated investors regularly on the status of the business and their investment and disclosed any agreed variations of terms such as interest holidays. We were pleased to receive several emails back from bondholders showing their support for this flexible approach.

Listed equity

Whilst our listed managed funds afford us a lower level of influence over our investee companies, we believe that as long-term investors, active engagement is key to protect and enhance value through our engagement with the businesses.

Based on ESG research (either by service providers or inhouse), we identify material ESG issues associated with the companies that get discussed with the Fund Managers in dedicated workshops. An ESG Engagement Plan is developed, which is used to guide engagement and track the outcomes of any such engagement.

As investors in smaller listed companies, our aim is to support them become better companies and guide through their own ESG journey, that leads them to a long-term sustainable business model, with adequate disclosures.

Our engagements are always focused on material aspects for the specific company.

Some aspects we tend to engage on include:

Business strategy: For example, we are invested in a company that traditionally was involved in the coal mining industry. As a stranded sector, the company has repositioned its business strategy to move away from industrial materials provision and services, with all mining operations now ceased. Following a slight decline in profit, we have been actively engaging with management to better understand their new business strategy and supporting an overhaul of their governance to support this pivot. Additionally, Judith MacKenzie (Head of Downing Fund Managers) has a Non-Executive Board position in another company and is 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 the Board and providing guidance to the operational management team with regard to driving a turnaround strategy.

Chair: For a company where we have observer rights on the board, we recommended a change in Chairperson and supported the company in selecting the appropriate person to take over. Since this time, the share value in the company has significantly increased. On another occasion, Downing Fund Managers carried out due diligence in a Company that showed that the Board could be better structured. The Company had articulated a strategy that would become more acquisition led, therefore requiring specific experience of acquisitions at Board level. Downing therefore deemed it appropriate to require a change of Chairperson as part of our investment terms. Downing then took a 15%+ position in the equity of the company and began working with management to determine the job specification for Chair and then took part in the interview process. A new Chair has subsequently been appointed, and a strategy articulated to the stock market. This has resulted in a 37% increase in share price since Downing engagement and investment.

Board independence: Perhaps our most common area of engagement is around oversight, expertise and independence of the board.

ESG disclosures: given the size of some of the companies we invest in, some of these are in the early stages of including non-financial disclosures in their annual reports. Where we have perceived that these were insufficient, we have directly engaged with management and supported them with their understanding of what is expected by the market. We have provided constructive comments on their disclosures, giving advice on specific issues and how these could be improved.

Director compensation: when it comes to ensuring an appropriate level of incentive for Executive Directors, we often engage with the Head of the Renumeration Committee of a PLC to ensure that there are aligned incentives and long term incentive plans in place to motivate management. In several cases Downing has written the first draft of these incentive plans to help the Renumeration Committee Chairperson.

Case study

Engaging with issuers to maintain and enhance value: **Downing Strategic Microcap Trust**

One of our listed investments was traditionally in the coal mining business. As a result of the climate change agenda, this sector is now considered less desirable and consequently the company has worked hard to change its business strategy to make it less dependant on fossil fuels.

Downing made an assessment ESG risks (shown below) and we have been directly engaging with management to ensure the new business strategy is robust and futureproof. We have shared our analysis with them and supported them through better ESG disclosures that can showcase the work that management has done to turn around the company, which we believe will increase the share value in the long-term.

	Findings	Potential implications	Additional considerations
Governance	Main risks are driven by lack of disclosure on governance.No controversies identified. Announcement in June 2020 the cessation of all coal mining operations -their main business area. Now focusing on distribution and industrial services which used to be peripheral. Planned transition.	Potential risks and exposures associated with shift of strategy towards previously non core services. Reported revenue fall of 26.5% in the last financial year. One asset sold and then been hired back to do the mining.	*Additional information in relation to risk management progress and cost of new strategic company vision?* *Are current contracts fixed term ?* *Level of investment by fund*
Social	Mining and distribution have inherent very high H&S risks. Company stated reportable accidents have reduced over years. As a result of business refocus, redundancy program in place (300 to date, more planned) - £3.7M in potential redundancy liability	Potentially increased costs of redundancies are contested and are at a substantially higher number than initially anticipated. The company suffers reportable accidents, although these have been reducing. This gives a greater exposure to claims and fines.	*Does the fund manager have additional information in relation to additional staff adjustments and associated liabilities?* *Is additional engagement required to obtain this information?*
Environment	Although mining activities are ceasing, some are done under third party contract - high environmental risk. Of the £3.7M liability above there is a contingent for accelerated environmental restoration plans of closed mines. Still provide coal distribution, which will diminish over time.	Potentially increased costs depending on the restoration plans. These can be costly and take a number of years, so the existing contingencies will have to be monitored. Potential exposure to their coal distribution services as this business service is likely to reduce over time.	*Does the fund manager have additional information in relation to climate risk exposure in the context of the strategic shift?* *Has environmental restoration been appropriately costed in?*

Source of research: Sustainalytics

Principle 10

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

As active owners, we feel that our most positive outcomes are achieved through direct engagement with the companies we invest in. However, we accept that occasionally, particularly in escalated circumstances, a collaborative approach may be appropriate.

In adopting a collaborative approach, we are always mindful of adhering to all regulatory requirements in relation to liaison with other investors; and in particular regarding not seeking to actively influence other's positions and opinions on certain subject matters. When we have significant concerns that cannot be addressed through direct engagements, we may decide to put our views across to other investors. Where those views are shared, a common approach may be agreed on how to best address the issue with the company in question.

This has historically happened when we have had concerns over management teams, with a joint approach to a company Non-Executive Directors to discuss our concerns and agree a way forward.

Recently, we raised concerns over a number of issues within one of our listed holdings, which were shared by other investors. As the other investor shared our views, we were able to jointly approach the company and it was agreed that an independent third-party review of the issues would be conducted to review the adequacy of management's handling of the matter. This review is currently ongoing.

Principle 11

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

In our experience, most of our concerns (including those related to listed assets) get successfully addressed through constructive and active engagement conducted by our Fund Managers, which may involve direct communication with management at the company, board discussions (where we have board representation), etc. We believe this approach provides the best outcome to secure long-term value creation for our clients.

However, there may be occasions where the company does not satisfactorily respond to our engagement or address our concerns. This may happen more frequently within our listed portfolio, where our level of influence over the management team may be lower. In that event, we may consider escalating our engagement on those specific aspects of concern.

In the first instance, we would consider intensifying discussions with management to better understand their position and any action being taken to address our concerns.

Should these discussions fail to provide us with the level of comfort we require as responsible investors, we may seek further escalation via:

- Engaging with non-executive directors and/or the Chair.
- Voting against management on specific resolutions
- Seek collaborative engagement with other investors in the company.
- Requesting extraordinary general meetings.
- As a last resort, if despite all our attempts to engage, we continue to have material concerns about certain aspects, we may consider divesting the shares.

We find that most instances of escalation tend to relate to board independence, oversight, expertise and remuneration. As an example, escalation was recently applied to one of our listed holdings where Downing had concerns over remuneration for the Chair. These concerns were raised with the Non–Executive Director. As a result of this escalation, the proposed remuneration resolution was withdrawn from the Annual General Meeting agenda and the Chair resigned prior to the meeting.

There have also been a number of occasions where we have submitted proposed resolutions in draft for consideration by the company within 24 hours. This makes it clear to management that we are serious about our concerns but gives them an opportunity to respond and address the issue before we escalate further. On rare occasions, we have even raised matters with the regulatory advisor.

Our preference is to keep our engagement confidential, although in specific circumstances, we reserve the right to make our concerns public should the company repeatedly fail to address our concerns.

Principle 12

Signatories actively exercise their rights and responsibilities

Private equity and Fixed Income

On a typical investment by the Downing Ventures EIS Fund and the venture capital trusts managed by Downing, such as the recent investment into Glisser, our oversight of the investee company includes:

- 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 composition);

- The right to receive regular financial and trading information, including both 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 firm 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 this 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 as a matter of course:

- pre-emption rights on the issue of further shares, to prevent our investors from being involuntarily diluted;

- 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.

Case study

Exercising rights and responsibilities: Fixed income

Downing bonds are secured against the assets of the issuer, and have both a fixed rate of interest and a fixed repayment date. In some cases we allow early repayment to provide a degree of flexibility for the borrower as it is impossible to predict, to the day, when a property will sell or a refinance will be arranged to allow them to pay capital back and interest due. However, if they miss the repayment date, this will constitute an event of default which would allow Downing to step in, take over the business and take such steps as they feel appropriate to recover bondholders funds.

In virtually all cases our investment management team will be aware of potential default some weeks ahead of the repayment time and can engage with issuers to find a solution. We have a dedicated partner who will typically take over the relationship at this stage. Our Terms and Conditions also set a high (but not punitive) default rate of interest so that the borrower is incentivised to repay by whatever means possible.

Rather than incur the legal costs and time delays of using the security we have found in practice that we can leverage this threat whilst working proactively with the borrower to help them find a solution. One example of this was a reserve power bond where ultimately we helped the borrower find a buyer for their assets so that they could access money to repay capital and interest due to investors. Unfortunately there were not sufficient funds to cover Downing's fee which was only due after investors had received their capital and interest.

Whilst we call the direct investment platform Downing Crowd, it is therefore very different to crowdfunding or peer to peer lending as we take the same approach to managing issuers as we would in a full fund structure.

Principle 12 cont'd

Listed equity

As part of our listed holdings, we have recently issued our Voting and Engagement Policy (February 2021), which sets out our approach to voting.

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. However, should we have concerns which we believe are in the process of being addressed, or where there is a lack sufficient information to determine the direction of our vote, we may occasionally decide to 'Abstain'.

We generally aim to support management, although resolutions that are inconsistent with our Voting Policy or for which we have previously abstained with concerns not suitably addressed, will be voted against.

We have adopted a pragmatic approach to voting, where we evaluate issues on their own merit and under the relevant circumstances, and directly communicate with management as necessary particularly on any contentious matters), to assist us in determining our vote in accordance with the best interest of Downing Fund Managers and our clients.

Notwithstanding our consideration of issues on a case-by-case basis, we have adopted a Voting

Policy that sets out our high-level expectations on matters that we vote and engage in. This positioning reflects our responsible investment commitments as a PRI signatory, supporter of TCFD and the UK Corporate Governance Code and the present applicant to the UK Stewardship 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.

Our voting guidelines are structured around the (following themes:

Corporate leadership: issues around board composition and functioning, CEO and Chairman, independent directors (including diversity issues)

Compensation, audit and accountability: approach to risk management and identification, remuneration and appointing auditors.

Capital structure: approach increasing the share capital, pre-emption rights and issuing dividends.

Sustainability: approach to non-financial disclosures, existence of sustainability skills within the board, and approach to charitable donations (we do not support political donations).

We do not in principle allow clients to overrule the house policy nor do clients have an opportunity to vote directly. Certainly there were no instances of this in the last year.

We are protective of our voting rights and any potential or proposed restriction would trigger a review of that holding. As an example, we recently divested our interest in Ryanair due to concerns that our voting rights would be diminished post Brexit.

We understand that disclosure and reporting are becoming increasingly important for our clients and other stakeholders. We will disclose our voting records and will produce a Voting and Engagement Report annually, summarising our activity in this respect. Our first Voting and Engagement Report is planned for 2021 however we have provided some key statistics in the table below.

In total 347 votes were cast over the 12 month period across seven funds/trusts.

Fund	Total votes per fund
DEUI	11
DGI	151
DUO	28
DMI	59
DSM	15
DMCG	27
IHT	56
Total	347

The votes that we cast in 2020 were in line with management recommendations in 66% of cases. Under our Voting & Engagement Policy we do not as a rule abstain from voting on shareholder resolutions. Where we decided to vote against the executive teams the most common reasons were:

Disapplication of Pre-emption rights

Political donations

Election of a particular director

Renumeration policy