

Sustainability and Responsible Investment

Downing Fund Managers
Voting and Engagement Policy

January 2025

Introduction

Our corporate purpose is to 'Make investment more rewarding'. Our Responsible Investment purpose is 'Investing for Return. Caring about the World'.

This means being profitable for our investors, supportive to the businesses we fund and ultimately rewarding for society. With 35 years of operating history, Downing is a client focused investment specialist with retail, wholesale and institutional clients. We offer a differentiated portfolio of high conviction products from specialist investment and client teams. Strategies are categorised into listed equity and private markets, with the latter covering energy & infrastructure, property finance & specialist lending, healthcare ventures and development capital. Downing is based in London with ~£1.8bn assets under management. As a partnership, we work for the benefit of our members; as a B Corp, we strive to have a broader positive impact and show regard to all our stakeholders through investing responsibly.

This Policy is signed below by Judith MacKenzie, Head of DFM, on behalf of the Executive Committee, and shall be published on the Downing website.



Judith MacKenzie, Head of DFM



Roger Lewis, Head of RI

Policy Overview

The purpose of this Policy is to formally outline the application of measuring, monitoring and managing sustainability and other risks & opportunities at the investee companies of Downing Fund Managers (“DFM”).

Downing adopts a tier architecture for ESG policies as set out below. This document is a Tier 3 Policy and its scope applies to all funds managed by DFM. These Policies show our position on ESG to stakeholders, guide investment teams on how to handle ESG issues and demonstrates our overall approach, recognising impact to client outcomes.

Tier 1 Philosophy	Corporate Governance, Natural Capital, Human Capital and Outcomes Surrounded by Active Ownership, Transparency & Reporting	
Tier 2 Downing-level	Responsible Investment and Climate Policy	Exclusions
Tier 3 Investment-level	Downing Fund Managers Voting & Engagement	Private Markets Responsible Investment

Engagement Approach

A proprietary **ESG scorecard** assesses overall factors and identifies specific issues at individual companies. This is available for all DFM investees. 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 several foundations for our engagement topics. The company's reporting and meeting cycles are also considered. Typically, a letter is sent to commence the engagement and then all methods of engagement from calls to in-person meetings are used as most appropriate.

All DFM stewardship activity is logged in an **Engagement Tracker** (web-based tool) to monitor companies' progress and performance, as well as manage escalations. This has two main components:

- 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
- 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)

In addition to the Tracker, under this Policy we also commit to: **semi-annual prioritisation** to identify companies and subjects for future engagement. This is based on results from ESG research and prior engagement and voting activity.

We **publicly report** voting stats, engagement activity (including numbers, case studies and detail by topic, region and UN Sustainable Development Goal.

In certain cases where a material agreement has been reached, **post-engagement letters** to formally document will be shared with the company.

Voting Approach

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:

1. Flag (by Operations) → 2a. Advise (by the RI team, for certain subjects like climate or pay) → 2b. Investigate (as required: further analysis with the RI team going into detail, up to asking the company to clarify a point) → 3. Decide (by the fund manager)

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 sensitive matters. This is to assist us in determining our vote in accordance with the best interest of Downing Fund Managers and our clients. Any **voting related engagement** will take place as far as practical ahead of the vote.

There are a number of issues where our expectations cannot be fully reflected through voting. In these instances, as part of our stewardship approach, we will directly engage with the company's management to communicate our views in an effective, honest and constructive way. We believe this approach is likely to result in better outcomes that contribute towards the long-term success of the business.

We also engage with our beneficiaries to understand their priorities and positioning, so that we can better define our voting and engagement strategy. We acknowledge that positioning on different matters may change both internally and for our beneficiaries. Therefore, we are committed to reviewing this Policy regularly.

Shareholder resolutions can be important to achieve the stewardship objectives of this Policy and proposing these at annual general meetings is an important right. We shall 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 that consider the rights, thresholds (eg, 5% ownership for UK companies), dates, processes for filing, ability to withdraw and any costs in the company's jurisdiction. This includes climate-related resolutions. In general, we prefer advising companies of our concerns through dialogue first and the default preference is not to make public, but this can still be considered.

Stewardship Principles: Corporate Governance Pillar, Boards Module

Issue	DFM Position	Voting Guidelines
Board composition	<p>We acknowledge that Board composition varies significantly, but generally we look for boards that are effective, with appropriate accountability to shareholders and stakeholders.</p> <p>Boards should have an appropriate balance of executives and non- executives. There should be an appropriate level of diversity of skills, backgrounds, thought, opinion, gender and ethnicity to provide for optimal decision-making and challenge of management.</p> <p>The Board should be large enough to encourage debate, but overly large Boards should be avoided.</p>	<p>We may vote against the chairman or the nomination committee chairman if material concerns persist in respect of board composition, diversity and succession planning. In particular, this will be the case when no non-executive directors have been appointed to the board within a reasonable period of time.</p> <p>We will vote against individual directors where we have significant concerns over their suitability and skills relevant to the company.</p>
Chairman and CEO	<p>Our strong preference is for the figures of the CEO and Chairman to be separate, to avoid concentration of power in one person. Ideally, the Chairman should be independent.</p> <p>Should these positions be combined, we would expect this to be counterbalanced with an increased number of independent directors in the Board, or a fully independent deputy chair.</p>	<p>We believe concerns over the Chairman, the CEO and corporate strategy can be addressed via direct discussions with a Senior Independent Director.</p> <p>We will review the suitability of a combined role on a case-by-case basis, particularly if the company has provided the necessary alternative independence assurances.</p>
Non-Executive Directors	<p>NEDs should bring balance to a Board and protect shareholder interests by working co-operatively and demonstrating objective and independent judgement.</p> <p>Each NED should be certain that they can devote sufficient time to achieve this. NEDs should be identified in annual report.</p>	<p>QCA guidance is followed: Boards will include at least two NEDs who are identified as independent. Larger Boards will require more independent NEDs to provide reassurance that independent views carry sufficient weight on the Board. Generally, shareholder expectation is that at least half of directors of a Board will be independent NEDs.</p>

Independent directors	<p>We would expect larger companies to have at least half of the Board made up of independent directors. AIM companies should follow the UK Corporate Governance Code as far as practicable, or explain their reasons for applying a different approach.</p> <p>We endorse the UK Code's definition of independence of directors and note this is the basis for the ICGN's Global Governance Principles for independence. A director is assumed not to be independent if he or she:</p> <ul style="list-style-type: none"> • is currently or has been an employee or within the past five years; • has, or has had within the last three years, a material business relationship with the company; • received or receives additional remuneration from the company other than director's fees; • has close family ties with other directors, senior staff or advisers; • holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; • represents a significant shareholder; or • has served on the Board for more than nine years from their first election. 	<p>We may oppose the election or re-election of a non-executive director who we do not consider to be independent, if we think there are not sufficient independent directors on the Board, unless a reasonable explanation is provided.</p> <p>We will not support the re-election of the Chair and other non-executive directors after nine years without good reason.</p>
Board functioning	<p>There should be an adequate number of Board meetings to ensure issues material to the company are addressed in a timely manner. We would regard six in any one year as a minimum.</p> <p>Board members must have enough time to discharge their role properly, taking into account periods where there may be a need for increased time to deal with any emerging issues. Education should be used as needed, including full formal induction for new directors.</p> <p>Attendance at both Board and Board Committee meetings is important and should be publicly reported.</p>	<p>We will not normally support the re-election of a director with a consistently poor attendance record.</p>

Charitable and political donations	<p>Generally, charitable donations should not be made with shareholders' funds. Small amounts are acceptable, with a shareholder approved policy specifying the maximum amount.</p> <p>Political donations should not be made.</p>	<p>We will consider voting for resolutions authorising appropriate charitable donations.</p> <p>We will oppose any political donations. We would also consider voting against the report and accounts in the absence of a specific resolution to approve a donation.</p>
Board committees	<p>Board committees should be established with clear, written Terms of Reference and cover: Audit, Nomination and Remuneration.</p> <p>For larger companies, we believe that the Nomination Committee should be comprised of a majority of independent directors, and the Remuneration and Audit Committees should be wholly comprised of independent directors.</p> <p>For smaller companies that cannot meet the majority independence threshold, we would consider supporting committees where at least two-thirds are independent, provided there is a sufficient rationale.</p>	<p>We may oppose the re-election of committee members where we have concerns about the appropriate functioning of such committee.</p>
Director re-election	<p>All directors should be subject to annual re-election, with adequate succession plans in place.</p> <p>Accompanying disclosures on their skills and experience and other directorships are required to be made in annual reports.</p>	<p>We may vote against directors that do not submit themselves for annual re-election.</p> <p><i>Note local market context that is applied for companies in Europe: Not all executive directors are elected by shareholders at the AGM, and in some markets terms longer than 12 months are normal.</i></p>
Meeting format	<p>In person Annual General Meetings allow appropriate questioning and challenge of the entire board. Virtual meetings allow a wider range of shareholders to join. We therefore support a hybrid format as the most positive.</p> <p>And related to the format, notices of AGMs must be with sufficient time – defined as a two week minimum.</p>	<p>Generally against virtual only, but willing to consider a company's rationale.</p> <p>Engagement / escalation if insufficient notice period is given.</p>

Stewardship Principles: Corporate Governance Pillar, Management Module

Issue	DFM Position	Voting Guidelines
Remuneration	<p>We believe remuneration should be designed to promote the long-term success of the company. It is the responsibility of the Remuneration Committee to ensure that remuneration is not excessive and directly linked to the performance of the company, the individual and wider workforce pay.</p> <p>We are in favour of straightforward incentive schemes that can be widely understood and that create alignment between executives and shareholders. Any Long-Term Incentive Plan ("LTIP") needs to reflect sustained value creation for the company in the long term, based on clearly defined key performance indicators (KPIs). An LTIP should be put to shareholders for approval. Share awards granted should be subject to a total vesting period of no less than two years.</p> <p>We encourage companies to adopt remuneration policies that incorporate material ESG related performance measures, provided they are linked to objective and, where possible, quantifiable KPIs.</p> <p>Remuneration should include performance-based rewards, and not market or sector increases in stock prices.</p> <p>We expect companies to make full disclosure of the detail of directors' pay and benefits.</p>	<p>We may oppose the remuneration implementation report if we do not believe there is adequate alignment between remuneration in the year under review and long-term shareholder value.</p> <p>As the purpose of an LTIP is to encourage executives to act in the interests of shareholders, holding periods are important. An insufficient holding period may therefore result in our opposition.</p> <p>We may vote against the remuneration policy if there are concerns with how remuneration is structured, if the policy allows for potentially excessive remuneration in clear disconnect with the overall workforce, the relevant KPIs of the company; or where we believe the independence of the remuneration committee to have been compromised; or where the company's remuneration policy and directors' pay are not disclosed in the annual report.</p>
Audit and auditor fees	<p>We favour the appointment of an auditor recommended by a fully independent Audit Committee. The independence of auditors may be compromised by the size of their non-audit fee. Full disclosure of the auditor's remuneration should be provided within the annual report, separated to non-audit fees (note we do not apply a set ratio of audit to non-audit fees that we find acceptable). Audit committees should periodically review the independence of their auditors. At least one member must have recent and relevant financial experience. Boards should maintain robust structures and processes to ensure internal controls and to oversee all aspects</p>	<p>We may vote against the re-appointment of the auditor when we perceive their independence to have been compromised by the level of non-audit fees or the length of their tenure, or any other compromising issue.</p>

Risk identification and management	<p>Risks, including those related to data & cyber security and climate change, should be identified and effectively managed. We expect companies to disclose how they comply with regulatory requirements or voluntary codes for risks such as collecting, storing and using personal data in their operations, or physical & transition climate impacts.</p> <p>When incidents occur, companies should look to be transparent and disclose relevant facts and actions taken to shareholders.</p>	<p>In the case of serious breaches of corporate governance at a company, it might be appropriate to vote against the report and accounts.</p> <p>We may vote against the Chair, the report and/or accounts where we perceive risks have not been appropriately addressed by the board and where the company has not been responsive to engagement.</p>
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** Voting principles and guidelines for a Pillar on Human Capital, Diversity and Impacts will be added in 2024*

Stewardship Principles: Corporate Governance Pillar, Shareholder Rights

Issue	DFM Position	Voting Guidelines
Increase in share capital	We acknowledge that companies need to establish and maintain an efficient capital structure. Authority to issue an amount not exceeding two thirds of issued capital on a pre-emption basis is generally acceptable, assuming directors are appropriately accountable.	We will review proposals by companies to increase shares and the purpose of that increase on a case-by-case basis. We may consider opposing any capital raising that involves unequal voting rights.
Pre-emption rights / Dilution of equity	<p>Pre-emption rights for existing shareholders are an important basic right. New shares may be issued for cash without pre-emption, or for remuneration purposes, subject to limits. These limits should not exceed 5% of issued share capital. There may be some exceptional cases to this 5% rule:</p> <ul style="list-style-type: none"> • In some cases 10% may be acceptable but companies should explain why a non-pre-emptive issue of shares is the most appropriate means of raising capital, and why other financing methods have been rejected • Where higher proposed limits are considered acceptable and normal in local markets (eg, 10%+ for Nordics) <p>The Board should provide full explanations where pre-emption rights are not offered. Companies seeking to waive pre-emption rights from shareholders should do so on an annual basis.</p>	<p>We would generally vote in favour of companies to issue shares for cash where the proposed issue is limited to 5% of the current issued share capital. We may exceptionally vote in favour of an additional 5%, as long as these are considered as two separate 5% resolutions.</p> <p>We would oppose any waiver of pre-emption rights beyond the 10% limit.</p> <p><i>Note local market context that is applied for companies in Europe: Where higher limits are considered acceptable and normal in local markets – per the DFM Position to the left – then this is applied to our voting as well.</i></p>
Dividends	<p>A resolution in respect of dividends should be put separately from the resolution to approve the report and accounts.</p> <p>We expect good dividend disclosure, which provides us with an understanding of how capital is being maintained by management.</p>	We will engage directly with management if we have any concerns regarding a company's dividend and level of disclosure. In the event of continued concerns, we may eventually decide to vote against the annual report and accounts.
Shareholder rights – voting structures	All shareholders, including minority ones, should be treated equally and fairly. This includes one vote for one ordinary share, approval for major changes and providing disclosure and transparency. If we trust a founder and there is evidence that unequal shares enable listing or growth, we will potentially accept other structures.	We will vote against proposals that have the potential to reduce shareholder rights in particular dual class share structures where their rationale and the intent of controlling shareholders can not be adequately understood. This applies at listing and where changes to existing structures are proposed.

Stewardship Principles: Climate and Natural Capital Pillar

Issue	DFM Position	Voting Guidelines
Disclosures	<p>Companies should demonstrate consideration and management of environmental and social issues through appropriate disclosures.</p> <p>Disclosures should incorporate risk and opportunity identification and testing of corporate strategy against scenario-based climate change impacts. Where relevant, disclosures should further incorporate an outline of adequate mitigation action taken on these matters.</p> <p>We favour the publication of annual, dedicated sustainability reports.</p>	<p>We will generally vote in favour of any resolutions which are directed at mitigating environmental and social risks.</p> <p>We would consider voting against the annual report when disclosures are flagrantly inadequate, and where we believe there may be material implications for the business and the interests of our beneficiaries.</p>

Escalation Approach

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 important and considered.

Typically, the flow and timings to escalation are:

1. **ENGAGEMENT** 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. The timing for how long to wait shall be decided on a case-by-case basis based on our knowledge of both the company and the issue. 0-3 months
2. **MEETING** 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). 3-12 months
3. **REVIEW** Look for progress in annual report, or other relevant sources, and any patterns over time in the company's behaviour. 12-18 months
4. **VOTING** Formally voting against management or 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. Annually, per AGM
5. **REVIEW** Issue resolved or review holding – buy, hold or sell. Ongoing
6. **REVIEW** Monitor and report, including via the FRC Stewardship report. Ongoing

Specific measures we shall consider using are joining a collaborative engagement, filing a shareholder resolution, co-signing public letters, divesting and in extreme cases, litigation.

Restricted List

We recognise there may be limited occasions when, during an engagement dialogue, we become aware of material, non-public information about a company, despite our general position of not willing to become an insider. This can be unintentional, despite the responsibility of the person sharing the information to check its sensitivity, and our willingness to receive it, with us first. If this occurs, as soon as we are in receipt of this information and following the fund manager's judgment, we shall:

- Confirm the position with the management team and the relevant broker(s)
- Inform Downing Compliance in order for the stock to be placed on the restricted trading list and ensure compliance with legal requirements on confidentiality and record keeping
- Consider discussing practical public disclosure with the company to enable lifting of the restriction