

Downing LLP

Private Markets Responsible Investment Policy

August 2023

FCA Firm Reference Number: 545025

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Policy Overview

The purpose of this Policy is to formally outline the integration of Responsible Investment (RI) across Downing LLP Private Markets. And it shows commitment to the continuous weaving of RI into our fabric from strategies for growth to investment activity.

Downing adopts a tier architecture for RI policies as set out below. This captures both firm-wide principles and asset-level idiosyncrasies. This document is a Tier 3 Policy. It puts into practice the themes from Tiers 1 and 2. Its scope applies to all teams and funds within Private Markets.

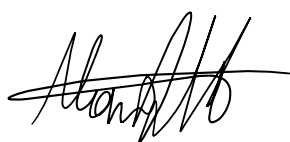
These Policies show our position on RI to stakeholders, guide investment teams on how to handle RI issues and demonstrate our overall approach, recognising impact to client outcomes.



* Due Q3 2023

Approval

The Private Markets Responsible Investment Policy 2023 has been reviewed and approved on 31st July 2023. The Policy is signed below and shall be published on the Downing website.



Kostas Manolis

Partner, Head of Private Market Investments



Roger Lewis

Head of Responsible Investment

Private Markets Approach to RI

Governance

Overall responsibility for implementation of Asset Class (Tier 3) RI Policies lies at business level oversight committees. This oversight and monitoring responsibility is delegated to investment team heads, who then ensure policies are followed by each of their respective teams. Support is provided as required from the Downing RI team.

All RI Policies are reviewed annually and approved by the Executive Committee and relevant business level Committees. Once approved, they are made publicly available on the Downing website. Updates are made during the review process to measure success and continuing alignment with strategy.

Further detail on RI integration across Downing is in the Tier 2 Group policy: https://uploads-ssl.webflow.com/62f9fee5943e1b22c71348e4/638a0afcadcdb759748cfa3_20221020_Tier_2_ESG_Policy_2022_v02.pdf

Investment Integration and Exclusions

All Private Markets investment teams commit to integrating ESG factors to investment research, analysis and papers for investment committee discussions and decisions. Investment committees will not approve deals without evidence of ESG integration, as follows. This applies to all new investments made from the date of this policy.

Private Markets hereby meets the first of the six Principles of Responsible Investment: *We will incorporate ESG issues into investment analysis and decision-making processes.*

Investment integration is informed by two resources available to all PM teams:

- **A proprietary scorecard.** This applies materiality for a sector to questions covering all environmental (eg water, waste, emissions and biodiversity), social (eg staff and community impacts) and governance (eg board oversight and accountability) factors. Scores range from poor (eg no awareness of the issue) to strong (issue is well managed with evidence). A front sheet is included in IC papers with the overall score, risks and areas of focus post-investment. PM deal teams determine the most appropriate time to complete this, noting that the amount and quality of information available varies significantly from a deal's initial review to pre-completion.
- **An independent opinion from the RI team.** This can be from an early stage of looking at a sector up to attending investment committee. Focus will be on what the risks are, and how to mitigate.

Downing has exclusions in place and will not invest in controversial weapons or operations that create excessive climate impacts: [63c6827d46467c0fc00823a6_20221023_Tier 2 Exclusions Policy 2022.pdf \(webflow.com\)](https://webflow.com/63c6827d46467c0fc00823a6_20221023_Tier_2_Exclusions_Policy_2022.pdf). Private Markets applies further exclusions beyond this (see below) and these are considered and applied in investment integration. This adopts the same approach as Downing: hard (no Private Markets capital can be deployed) and soft (capital may be deployed but counterparty, reputation or investment risk may exist due to the sector, therefore enhanced monitoring is required).

Engagement

All Private Markets investment teams commit to being active owners of their respective assets, and regularly measuring, monitoring and managing the sustainability risks and opportunities that they face. This hereby meets the second of the six Principles of Responsible Investment: *We will be active owners and incorporate ESG issues into our ownership policies and practices.*

Engagement may be identified and driven by any of the following groups:

- Deal teams as part of managing the overall investment and relevant counterparty relationships
- The RI team in response to low scores or risks identified in the investment process (see previous section) or concerns with the sector. Alternatively, to ensure alignment with the overall Downing RI approach
- Team heads, up to the Head of PM, in their investment oversight capacity

Climate Change

Full details of our approach to climate and net zero carbon in investment management and stewardship are in the Tier 3 Downing Climate Policy (to be published during H2 2023).

Climate change and related areas, such as greenhouse gas emissions, biodiversity and societal impacts from the green transition, are important factors in investment and engagement approaches.

Downing has made the Net Zero Asset Managers commitment and pledged to meet its three commitments. We will work with investees to decarbonise, set and then review emissions targets, and increase AUM in scope). Downing will publish by April 2024 the target percentage of AUM for reducing emissions, and then shall manage assets accordingly and report progress. Non net zero AUM will be reviewed annually, with a view of increasing the quantum being managed in line with net zero emissions. Private Markets will be covered in this net zero process.

Team-Specific Approaches

Commitment to Responsible Investment

All Private Markets teams commit to the broad investment and engagement integration principles described above. In addition to this, the following team-level factors shall be followed.

Energy and Infrastructure

Investment Style: operating, construction ready and development stage solar, wind, hydro, geothermal, battery storage, grid and grid stability, and ancillary infrastructure projects across multiple geographies.

Investment Integration: under this Policy, a proprietary scorecard is used during the decision making and investment committee processes. This is based on GRESB Infrastructure and other sources. The EU Taxonomy and other SFDR indicators are applied as needed (for Article 9 funds).

Exclusions: apply for the following sectors –

- **Extraction, processing or trading of any fossil fuels** (including oil and gas, shale gas and all other types): hard exclusion
- **Burning of fossil fuels** (including oil and gas): the Downing Exclusion Policy permits infrastructure investments where for example gas is used as a transition fuel (such as combined cycle gas turbines for when renewables are intermittent) in order to enable wider decarbonisation. The requirement here is that there must be evidence of the CCGT asset contributing to, or enabling, decarbonisation

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

Development Capital

Investment Style: enabling investees (usually asset-backed companies) to realise growth plans by providing flexible solutions for their capital needs.

Investment Integration: under this Policy, a proprietary scorecard is used during the due diligence and investment committee processes. This is based on internally developed questions that suit the idiosyncrasies of each of the investment sectors. Assessments are typically done by a combination of contacts at the company, the Development Capital team and the RI team. Companies are re-assessed at a frequency depending on risk. A progression matrix is used to show sustainability outcomes through initial and then target scores, with performance for each ESG factor shown as quartiles: Stage 1: Basic, Stage 2: Developing, Stage 3: Developed, Stage 4: Advanced.

Exclusions: apply for the following sectors –

- **Alcohol**: soft exclusion. Investment is permitted where there is an asset of community value status if applicable (eg local pub), and where there is no evidence of encouraging addiction or failure to comply with regulatory requirements
- **Gambling**: soft exclusion. Investment is permitted where this is for amusement only and not the sole purpose of the asset (eg slot machines in pubs vs a casino or betting shop), and where there is no evidence of encouraging addiction or failure to comply with regulatory requirements
- **Fossil Fuels** – any extraction, processing or burning: hard exclusion (does not apply to heating property like care homes)
- Commercial elements to a location where there may be environmental impacts (eg petrol stations and fossil fuel impacts) or perceptions of reputational risk
- As the investment universe is highly varied and new opportunities continually arise, this Policy cannot cover all. Instead the investment integration and engagement processes are intended to identify risks, engage the correct stakeholders and put in place steps to mitigate

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

Climate Change: Downing has adopted a third party platform for measuring Scope 1, 2 and 3 greenhouse gas emissions from portfolio companies and sources of combustion including real estate assets. Under this Policy, the Development Capital team commits to onboarding portfolio companies to this platform when suitable for the specific investment (eg majority equity owned by Downing managed funds). This is to enable awareness and then reduction, and ultimately removal, of emissions, as part of Downing's net zero commitment.

Specialist Finance

Investment Style: three sub-sectors. #1. Residential property development finance: Sustainability Linked Loans (this is the default position, though non-sustainability loans are also provided) to residential property developers in the UK, typically smaller sized borrowers and developments. #2. Wholesale lending to onward lenders. #3. Build to Rent: JV equity strategy for development of larger scale rental projects.

Investment Integration: under this Policy, a proprietary scorecard is used during the decision making and investment committee processes. This is based on GRESB Real Estate and home building environmental and low carbon guidance and targets from the Dept. for Business, Energy & Industrial Strategy. Specialist Finance commits to completing this scorecard for all property development and BtR deals.

For #1. Residential property development finance: Sustainability Linked Loans, questions / ESG factors covered are driven by deal size: light (<£2m), mid (£2-7m) and advanced (>£7m).

For #3. Build to Rent: additional factors assessed include the counterparty, engagement with tenants and an advanced carbon module.

Exclusions: given the sectors and assets, no further exclusions are applied beyond Downing's own.

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

Healthcare Ventures

Content will be added in future once a fund is raised.