Sustainability, Responsible Investment And Climate Policy

January 2025

Downing LLP is authorised and regulated by the Financial Conduct Authority (Firm Reference No. 545025).
Registered in England No. OC341575. Registered Office: St Magnus House, 3 Lower Thames Street, London EC3R 6HD

Introduction

Our corporate purpose is to 'Make investment more rewarding'.

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

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

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

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

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 ~£2bn 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 Tony McGing, Chief Executive Officer of Downing LLP, on behalf of the Executive Committee, and shall be published on the Downing website.

T. McGing

Tony McGing, CEO

Roger Lewis

Roger Lewis, Head of S&RI

1. Sustainability

Sustainability is Core

We define the basics of sustainability as thinking of future generations and the trade-offs between the three types of capital: human, produced and natural. This policy shows how sustainability is a strategic priority for Downing with commitment at Board, management and colleague levels. It formally outlines the integration of Sustainability, Responsible Investment and our response to climate change across Downing LLP, and shows commitment to the continuous weaving of this into our fabric from strategies for growth to investment activity.

We commit to actively managing our environmental impacts. We occupy leased offices in four locations and do not have opportunities for onsite power generation. We rely on green energy tariffs and seek to purchase renewable energy wherever possible. Furthermore, we seek verification such as Renewable Guarantees of Origin or Energy Attribute Certificates. For our offices, we engage with landlords for building efficiency opportunities and environmental impact reporting.

We commit to reporting sustainability impacts and activities in an annual report, published early in the year for the preceding one[1].

Environmental Awareness

We take environmental and climate issues seriously. Our operational emissions are reported annually in line with the Greenhouse Gas Protocol. This is done in partnership with an external sustainability consultant. We have climate disclosures that follow the eleven recommendations of the Climate-related Financial Disclosures. Both are reported in our annual sustainability report, shared with stakeholders and made public. Recommendations of the Taskforce on Nature-related Financial Disclosures will come in future.

We actively manage our emissions with opportunities to reduce, and shall consider specific targets, including independent verification from the Science Based Targets Initiative, in our future sustainability management approaches.

For procurement, we seek to make informed environmental choices. This includes printing, IT hardware, business travel and office equipment. We recognise that close collaboration and sharing information with our suppliers is important here.

Our Beliefs

We act with decency in all that we do. We value our customers and seek to provide outcomes that meet the future liabilities they are saving for today. Our culture is one of innovation, treating everyone fairly with support and respect, and being bold & ambitious. In all staff practices and policies, we do not discriminate on any of the following: age, sex, sexual orientation, gender, marital status, race, colour, religion or disability. We are committed to understanding, monitoring and – where needed – enhancing diversity (all human perspectives), equality (fairness) and inclusion (employees feel respected) at all levels across Downing.

We are strongly opposed to financial crime, bribery and other corrupt practices (detailed in separate Compliance policies). We are opposed to all forms of slavery (see our Modern Slavery Act statement here: https://www.downing.co.uk/modern-slavery-statement). We follow all local laws and regulations in the countries in which we operate.

We advocate charitable giving. Staff are encouraged to participate in both donations (time and money) and selecting charities for Downing to support. Employee donations of time and money to charities are matched by the Downing Foundation.

We follow clear principles in the conduct of our tax affairs. We see the taxes we pay as an important part of our contribution to sustainable development within the countries that we operate. We believe fair, effective and stable tax systems are beneficial for both governments and companies. We act transparently and responsibly in all tax matters and work closely with our tax advisors and, where appropriate, the UK and other tax authorities to ensure that we pay our fair share of taxes. Our processes and internal governance ensure full tax compliance in every jurisdiction.

Board and Executive Management

Downing's ownership structure is a limited liability partnership. We nonetheless recognise and reference codes of best practice for effective and independent boards as advisory bodies with diversity of thought and experience that are able to provide oversight and strategic direction. This includes the UK Corporate Governance Code, the Quoted Companies Alliance Code and the International Corporate Governance Network's Global Governance Principles[2].

Our Executive Committee is a diverse range of leaders, comprised of the founder of Downing, the CEO, COO, Head of Private Markets, Head of Public Markets, CFO and Head of People.

The Board acts in the long-term interests of Downing and with high standards of ethics, as evidenced by being in business for over 35 years.

Independence is from two Non Executive Directors that provide input and challenge quarterly. The Board is informed by meeting monthly, being joined by the two NEDs quarterly. Detailed metrics and reports are provided from every department. Quarterly business reviews and P&L sessions are held with each head of the investment teams.

In order to proactively oversee, review and manage risk, the Board is informed by an enterprise risk committee and receives compliance and other relevant information.

Being privately owned with founders still in the business and with partnership rules applied ensures that remuneration is aligned with interests of company, required disclosures are made and that there is robust audit.

2. Responsible Investment

Investment for Real Outcomes

The rules and procedures below are applied to all assets and products. They guide action and set roles and responsibilities among sustainability and investment team colleagues, and investees. They are based on the values and beliefs above, and are intended to achieve these pillars:

- Robust **corporate governance** and well-run investments with effective, independent and diverse boards providing strategic direction and management oversight, and with mechanisms to protect our rights as investors

- Preserving and enhancing **natural capital**. This is done with investments in renewable energy to reduce greenhouse gas emissions, and the integration of climate risk and opportunity and disclosure, biodiversity and other environmental factors (eg, pollution, land use and land use change, water, waste)

- Considering **human capital** and real **outcomes** in our activity, including diversity, equality and inclusion, human rights, and engaging with stakeholders. As a collaborating investor in the UNPRI Advance initiative, we include human rights in pre-investment due diligence processes and scorecards. This specific content will be enhanced with future guidance on human rights from UNPRI. This is in addition to our own sustainability principles and B Corp and Modern Slavery obligations

- Surrounding all this is **stewardship**– including active voting – with all investees for the material sustainability risks and opportunities that they face, and reporting and transparency. And as a B Corp, acting with common decency as an employer, community member and investor

From these, the first stage is identification of material factors. Then a preliminary investment evaluation for all deals, followed by a detailed investment evaluation for those that proceed. Risks to be mitigated and opportunities for positive outcomes are identified and then form part of our active ownership during the investment's life, with KPIs and reporting as well. Sources of ESG data are used in all cases, ranging from universal, external research and scores to a proprietary scorecard and sector or company specifics.

Results are integrated into the investment thesis and considered in the decision-making process, including stock selection or investment committees. This is a qualitative process and inputs to financial models (such as cost of capital, discounted cash flows, income statement / balance sheet line items, or valuation ratios) are not adjusted for ESG results. Our view is model adjustments are too imprecise on both quantum and direction (i.e. premium or discount), and to present and future values; there is no commonly agreed formula for model adjustments based on ESG analysis, and there is risk of wrong inputs leading to inappropriate investment or engagement decisions.

Conducting ESG evaluations upon exit is in early stages. We perform ESG analysis, similar to the pre-investment scorecard, and review our engagement to identify our contributions to sustainability outcomes where we have had an active, long term investment tenure.

We have exclusions in place and will not invest in certain companies or sectors. Further detail is in the Tier 2 Downing Exclusions Policy[3].

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

Private markets assets alternate each quarter between product and portfolio reviews. At the latter, sustainability actions and indicators are looked at.

The RI team provides in-depth expertise and independent oversight to all the above processes.

Engagement for Real Outcomes

For all investments across Downing:

- We structure stewardship around long-term value creation
- We undertake engagement activities with management and boards at investee companies. This is framed by a close understanding of investees and their drivers and appropriate timeframes to deliver change. We aim to ensure that dialogue is consistent, honest, two-way and appropriately resourced
- We are a signatory to the UK Stewardship Code 2020[4], and publish annual reports detailing our approach and integration[5], and outcomes achieved

In addition to the UK Stewardship Code, we recognise and follow the International Corporate Governance Network's Global Stewardship Principles[6] as an additional resource for global best practice:

Stewardship commitment; Robust governance; Monitoring and engagement; Voting and other ownership rights; Public policy advocacy.

Specifically for listed equities investments at Downing Fund Managers:

- We prioritise engagement based on inputs including ESG risk and findings from research
- We commit to transparency and publish voting records and reporting on engagement activities
- Where appropriate to do so and subject to restrictions around conflicts, competition law and acting in concert, we engage collaboratively with other asset management firms and coalitions of investors
- We vote globally at all shareholder meetings where we have the legal and contractual right to do so
- We track all discussions for outcomes in a dedicated database, and prioritise engagements for upcoming quarters

Commitment to Responsible Investment

All our investment teams commit to this investment and engagement integration. These are:

Downing Fund Managers: funds boutique that actively invest in listed equities including European, unique opportunities, small and mid-cap income and multi manager.

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

Development Capital: asset-backed companies enabling investees to realise their growth plans by providing flexible solutions for their capital needs. Sectors include care homes and specialist education.

Specialist Lending: loans that reference sustainability to residential property developers in the UK, typically smaller sized borrowers and developments, and wholesale lending to onward lenders.

Given the importance of authenticity and accountability to all stakeholders, we commit to being an active participant (industry dialogue and thought leadership) with ESG frameworks, benchmarks and associations. This includes:

Downing is proud to be certified as a B Corp[7] and has made a legally binding commitment, which this Policy reinforces, to show regard to all our stakeholders (staff, customers, communities, the environment and overall governance), and to report progress.

Downing is a signatory to the UN Principles of Responsible Investment, and closely follows its six principles[8], and to the ten principles of the UN Global Compact[9], a sustainability initiative derived from broader standards around labour & human rights, environment and anti-corruption. We fulfil this in two ways. First, as a corporate, we fully support applying the ten principles to our firm, including suppliers as far as is practical, and communicating on progress each year. And second, as an investor we integrate the UN Global Compact (also other Global Standards such as labour and human rights) to investment and engagement activity.

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Downing

Governance of Responsible Investment

The Head of RI has overall accountability for achieving this Policy's requirements, and other Tier 2 ESG Policies.

To support this accountability, we commit to quarterly, Exec- / Board-level oversight of sustainable investment. This is achieved via a Sustainability and Responsible Investment Committee. Its objective is governance, discussion and discovery for all ESG activities across Downing LLP. This includes decisions, approvals, risks and updates covering: strategy, investment, client, stewardship, reporting & regulation.

Responsibility for implementation of Tier 3 ESG Policies lies with investment teams.

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

All ESG Policies are reviewed annually and approved by the S&RI Committee. Once approved, they are made publicly available on the Downing website.

To ensure Downing staff are incentivised to engage as sustainable investors, appropriate ESG factors are incorporated within performance objectives (eg, at team level for individuals to then consider their role in achieving), assessment and compensation.

For developing colleagues professionally, training budget and study leave are available to all staff. For sustainability specifically, this includes courses run by the UNPRI Academy, the International Corporate Governance Network and the CFA Certificate in Investment Management (ESG). All are suitable for investment managers, fund managers, sales teams and product designers. The S&RI team provide regular, ongoing training as well. This is available to any colleague and can be specific to a function integrating an ESG factor, or thematic.

ESG risk (defined as exposures to sectors or companies that Downing and its clients may see as reputational or ethical risk) is identified and managed at the investment team level. We monitor and update risky sectors based on house views and market developments. Oversight is provided by the RI team, also ESG and Risk Committees: once a quarter, any holdings in risky companies or sectors are identified and added to a high ESG risk watchlist, and insights or challenges are discussed.

We shall 'horizon scan' for UK and European regulator and policymaker developments for sustainable investment, and discuss internally the implications to Downing and create suitable responses. For funds or products specifically labelled as ESG or green (including Article 8 or 9 under SFDR, or the FCA labels), we closely follow the reporting and ESG integration obligations required.

We support policy advocacy and participation as part of good ESG and shall contribute to consultations and other sector dialogues.

3. Climate

Introduction

Each year, over 50bn tonnes of carbon are emitted by human activity (called ‘anthropogenic’) into the atmosphere worldwide (source: UNEP, 2021). This amount has been steadily rising since 1990, leading to increasingly visible, amplified and irreversible effects of climate change.

This section of the Policy outlines our response and contributions. It represents Downing’s contribution to limit warming to 2°C above pre-industrial averages. Its objectives are avoiding severe physical, economic and other irreversible impacts in the second half of this century, and not breaching any regulator rules. It provides specific guidelines on climate change and the management of climate-related financial risk and opportunity in the context of investment and engagement activities.

Climate change plays an important role in Downing’s business. There are risks from physical impacts impairing assets or suspending their operation, and from transitions like market sentiment and policy changes reducing return given the activities of our investments. But there are also opportunities that reducing greenhouse gas emissions and enabling humans to live in a warmer world bring. These risks and opportunities are central factors in pre-investment ESG analysis and active engagement, with reporting and transparency.

For the purpose of this Policy, we define climate impacts as human activity releasing heat-trapping greenhouse gases into the atmosphere:

- Carbon dioxide (CO_2) is the predominant GHG, but we recognise the impact of others as defined by the Kyoto Protocol 1997, including methane (CH_4) and nitrous oxide (N_2O)

- Of all human-caused CO_2, the majority comes from burning fossil fuels (for power, heat and transport) and manufacturing (sectors including cement, steel, chemicals, fertilisers and aluminium)

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Climate in Investment Activity

Under this Policy, we commit to:

A dedicated climate module in ESG scorecards, to inform investment committees and decisions. Content will be tailored to the specifics of the investment team and asset class and can include reporting greenhouse gas emissions, board and management responses to climate change, disclosures and impacts to capex and revenue.

As part of annual updates to all ESG scorecards, the latest climate developments – like policymaker responses and new types of data – will be incorporated.

Understanding present and future greenhouse gas emissions pathways of investments, including their abatement capacity. At a minimum, this applies to funds confirmed as being managed in line with net zero carbon, which will increase to all investments over time. Depending on the asset, emissions metrics used will be absolute emissions (Scopes 1 and 2, and where material, Scope 3) or emissions as intensities. For Downing Fund Managers, intensities are based on how much carbon is needed to generate £1mn of revenue (carbon intensity), or the proportion of the fund represented by carbon intensive companies (weighted average carbon intensity). For private markets, intensities based on per sq. ft. of real estate are one potential example, depending on actual assets. An internal or shadow carbon price is not currently applied. This will be considered in the future as carbon pricing gains broader acceptance among policymakers, investors and companies.

Excluding sectors. Thermal coal (mining and power generation) is excluded under the Downing Exclusions Policy. For other high emitting, hard-to-abate sectors, we will add any holdings to the ESG risk watchlist, monitor the emissions and climate response closely with the investment team and, when appropriate, utilise stewardship (see next section) as a core strategy to decarbonise. Sectors this applies to includes, but is not limited to, steel, chemicals, cement, transport (in particular aviation & shipping) and real estate.

Continuing to invest in sectors with proven emissions abatement capacity (eg, renewable power). And considering investments in sectors where technological, economic, regulatory or market developments are still needed (eg, carbon capture), also in hard-to-abate sectors or companies where there is evidence of progress towards de-carbonisation. We do not expect investments in unproven or not-yet-economical new technology pilots.

Ongoing monitoring of developments in climate analytics and data capabilities, such as warming scenarios, temperature scoring and the physical risks of a precise location. While none are utilised at present beyond the above, these developments shall be considered for integration when relevant to our investment activity.

Climate in Stewardship Activity

Under this Policy, we commit to:

Having a dialogue with investees about sustainability risks and opportunities, which is already a requirement and happening. This dialogue includes climate factors when a specific need is identified by the Responsible Investment team, or by investment teams and the investee itself. Subjects will generally be around reducing emissions (targets, capex, lobbying etc.), reporting progress and preparedness for a green transition. The need to balance against financial and economic impacts is recognised for our engagement on climate.

For listed equity, we recognise the importance of companies' climate transition plans, and of our vote. We shall consider these carefully against a pre-defined checklist of what a credible and ambitious plan should contain, and seek clarification from management where required. For these transition plans, we support detail instead of simplification, componentisation and discrete processes that can deliver actual outcomes, and detailed planning upfront to enable longer-term targets to be met. This will inform our engagement dialogue and decision to vote for or against a plan. If against, we shall write to the company to explain why, aiming to increase the credibility and ambition of the plan for future.

Including climate in governance assessments of companies we hold. Boards have a big role to play in de-carbonisation and meeting current and upcoming policy obligations, and in oversight of management's climate activity for mitigating physical and transition risks, and disclosure.

Where holdings have not yet created plans to decarbonise or transition, this will be a subject to explore in engagement discussions. This can go up to supporting management teams to create transition plans, where they are material, long term holdings that we have ability to influence. Typically, the emissions reduction for Scopes 1 and 2 and some of Scope 3 will be prioritised where it is within investees' control.

Continuing to be active participants in industry-wide, investor collaborations to engage with large emitters on climate. This includes Climate Action 100+, Nature Action 100 and the Net Zero Engagement Initiative.

Integration of Climate Factors

Under this Policy, we commit to:

Continuing to publicly support the recommendations of the Taskforce on Climate-related Financial Disclosures. This includes contributing to consultations for its future, considering and encouraging the TCFD reports of investees in investment and engagement activity, and our own annual TCFD disclosure.

Reporting greenhouse gas emissions. This covers our own Scopes 1, 2 and 3 as part of our TCFD disclosure. Scope 3 Category 15 (financed emissions from our investments) has begun to be phased in. Both are reported in our annual Sustainability and Responsible Investment report. For renewable power assets, avoided emissions are disclosed in the annual reports of the relevant fund.

Accountability through targets. As a net zero asset manager, we aim for emissions of in-scope investments to be halved by 2030. Other climate targets include enabling small cap UK companies to report emissions, promoting renewable power and engagement discussion targets for climate and net zero.

For net zero specifically, understanding the emissions data of all investments and then engaging to reduce are the main focus now. Removing residual emissions through sequestration will come later (end of 2020s and into the 2030s) eg, mechanical carbon capture, utilisation and storage requires commercial and technological development first. We also recognise the wider benefits of natural carbon removal, eg, peat.

Monitoring developments in climate analytics and data capabilities. This applies to assessing the resilience of our climate strategy, as outlined in this Policy, under different climate scenarios, including physical and transition risks and, as TCFD expects, a two degrees Celsius scenario.

Endnotes

1. Most recent annual sustainability report: https://cdn.prod.website-files.com/63c93b0d4e6adc3ca93d8c14/66758360919875da276936d8_ESG020_Downing_Sustainability_Report_2024(compressed)V2.pdf

2. ICGN https://www.icgn.org/sites/default/files/2021-11/ICGN%20Global%20Governance%20Principles%202021.pdf

3. All ESG policies are made available on our website: https://institutional.downing.co.uk/sustainability

4.The UK Stewardship Code (2020)

i. *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*
ii. *Signatories' governance, resources and incentives support stewardship*
iii. *Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first*
iv. *Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system*
v. *Signatories review their policies, assure their processes and assess the effectiveness of their activities*
vi. *Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them*
vii. *Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities*
viii. *Signatories monitor and hold to account managers and/or service providers*
ix. *Signatories engage with issuers to maintain or enhance the value of assets*
x. *Signatories, where necessary, participate in collaborative engagement to influence issuers*
xi. *Signatories, where necessary, escalate stewardship activities to influence issuers*
xii. *Signatories actively exercise their rights and responsibilities*

5. For our most recent submission to the FRC, see here: 6565d797145b7a65510d68e9_ESG017_UK_FRC_Stewardship_Code_Report_2023.pdf (website-files.com)

6. Global Stewardship Principles: ICGN Global Stewardship Principles 2024.pdf

7. https://bcorporation.uk/?gclid=EAIaIQobChMI0PaY6P3I-IVM4BQBh2cJwkkEAAYASAAEgLJ6_D_BwE

8. The UN Principles of Responsible Investment (2006) provide a useful reference for all ESG activity

We will incorporate ESG issues into investment analysis & decision-making
We will be active owners and incorporate ESG issues into our ownership policies and practices
We will seek appropriate disclosure on ESG issues by the entities in which we invest
We will promote acceptance and implementation of the Principles within the investment industry
We will work together to enhance our effectiveness in implementing the Principles
We will each report on our activities and progress toward implementing the Principles

9. The UN Global Compact

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption
Principle 10: Businesses should work against corruption in all its forms, including extortion & bribery.