Stewardship Report for Q4 2023 to Q3 2024

October 2024

Downing

Contents

Foreword

"Empowering investees to achieve positive change themselves."

In this report, we reflect upon and share how we are active and engaged owners of investments, and what we have achieved.

You will read qualitative and quantitative detail across our asset classes – listed equity, private equity, renewable energy and property finance – and the importance of understanding and then actually delivering upon clients' required outcomes. You will also see some real engagement, policy advocacy, collaboration and voting examples.

Our aim is to publicly show our stewardship to stakeholders, and meet the requirement of being a signatory to the 2020 UK Stewardship Code (and to prepare for the updates coming to this in 2025).

Note to readers:

Following changes announced by the UK Financial Reporting Council in 2024 to reporting obligations of signatories to the UK Stewardship Code, the following Principles are not required to be reported on. If required, detail for these is available in prior year's stewardship reports. These are available here: [65771d5cfe5688475b4b3cab_ESG017_UK_FRC_Stewardship_Code_Report_2023.pdf (website-files.com)]

- Principle 1, Signatories' purpose, investment beliefs, strategy, and culture, page 4
- Principle 2, Signatories' governance, resources and incentives, page 9
- Principle 5, Signatories review their policies, page 20
- Principle 6, Signatories take account of client and beneficiary needs, page 23
- Principle 11, Signatories, where necessary, escalate stewardship activities, page 50 (no engagements were escalated in the period)

Approval by Governing Body: The report is signed below by Tony McGing, Chief Executive Officer of Downing LLP, on behalf of the Executive Committee, and shall be published on the Responsible Investment and Stewardship section of Downing website.

Tony McGing, CEO

Roger Lewis, Head of Sustainability

Code Principle 3

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

Activity

Identifying and Managing Conflicts

Our Conflicts of Interest Policy, developed by the Risk and Compliance team, applies to all employees and requires annual attestations. The policy covers all the activities and processes that we undertake, and includes emphasis on stewardship activities.

The Policy, procedures, and training help colleagues identify, mitigate, and manage conflicts of interest as they arise. These measures are designed to prevent conflicts from adversely impacting client interests and to ensure compliance with applicable regulations. The Policy covers situations where Downing may gain a financial advantage at a client's expense, or where different interests exist between our firm and our clients, including end investors. Conflicts of interest may arise in other circumstances:

- **Financial Incentives**: Where Downing could derive financial benefits by favouring one client over another.
- **Transactional Conflicts**: Situations where we have a material interest in a transaction that could conflict with the interests of our clients.
- **Personal Relationships**: Employees having a personal or family interest that may conflict with their professional duties.
- **Voting Proxies**: When we hold voting rights on behalf of a client but may have a different interest or favour one group of clients over another. Voting is reported in detail in Principle 12.

The Policy is reviewed regularly by the Risk and Compliance team and updated annually to reflect any changes in regulations or internal processes. This was last done in September 2024.

Measures to prevent and to mitigate

Our conflict management strategy includes the establishment of information barriers. These are designed to restrict the flow of sensitive information between different investment teams and business areas. This prevents any inappropriate influence on business activities that might give rise to an actual or potential conflict of interest. These barriers enable teams to act independently, in the best interests of each client, without the risk of being swayed by other internal factors. Examples of preventive actions are:

- **Internal Controls and Monitoring**: We have implemented a comprehensive set of internal controls, including monitoring systems that support compliance with our Conflicts of Interest policy. These help us prevent and manage conflicts, and ensure that clients' interests are safeguarded.
- **Conflict Committee**: Our Conflicts Committee assesses situations where potential conflicts may arise and ensures that all identified conflicts are handled appropriately. This committee periodically reviews and monitors existing conflicts to determine whether the controls in place are adequate. Should further escalation be necessary, matters are referred to senior management or the relevant board.
- **Information Barriers**: these are vital in preventing the misuse of confidential information. They ensure that business areas are segregated appropriately to avoid conflicts between departments and teams.

Disclosure and Client Communication

In instances where conflicts cannot be fully mitigated through internal controls, we may choose to disclose the conflict to the affected clients. This disclosure is provided in a manner that allows clients to make decisions that are suitably aware regarding the service they receive. The nature of the conflict and the steps taken to address it are communicated clearly, ensuring transparency and the necessary confidentiality.

We maintain a **Conflicts of Interest Register** in line with FCA Systems and Controls, tracking all identified conflicts and the measures taken to address them. This Register is regularly reviewed, and the Compliance team ensures that it remains current and effective.

Conflicts in Stewardship

We acknowledge that conflicts of interest can arise specifically in the stewardship activities we undertake on behalf of our clients. For examples, becoming aware of material, non-public information during a dialogue with a company, or engaging and voting for themes that we care about but are not best for our clients' own interests, or for their outcomes. These conflicts, if unmanaged, may undermine our ability to fulfil our stewardship responsibilities. We have developed a framework to identify, manage, and disclose conflicts specifically for stewardship.

Identifying Conflicts in Stewardship

Conflicts within stewardship activities are often more nuanced and involve balancing the interests of multiple clients or stakeholders. These may include:

- **Divergent Client Objectives in Voting:** When voting on resolutions at company meetings, particularly for ESG themes or shareholder resolutions, the interests of different client groups may conflict. It is important that voting decisions are made impartially, without unduly favouring one client's perspective over another's.
- **Company Engagement with Varied Interests:** During our engagements with investee companies, conflicts may arise where some clients prioritise financial returns while others emphasise environmental or social issues. In such cases, we carefully balance engagement strategies to ensure that the objectives of all clients are considered.
- **Employee Personal Interests:** Not common but employees involved in stewardship activities may have personal or family relationships with directors or key stakeholders at companies we engage with, which can lead to potential conflicts.
- **Competing Business Interests:** Downing may carry out the same or similar business as the client (eg, investing), potentially leading to conflicts where our own business interests overlap with client activities.
- **Allocation of Stewardship Resources:** Conflicts may arise if there is a financial incentive to allocate all stewardship resources to one client or particular outcome, thereby disadvantaging other clients.
- **Material Non-Public Information**: During stewardship discussions with investee companies' management teams, we may gain access to material non-public information, which could create a conflict of interest. In these cases, we follow strict protocols to manage the handling of this information and ensure compliance with our restricted list.
- **Proxy Voting:** A conflict could arise when we hold a proxy for a client and vote in a way that reflects Downing's interests or those of another client, rather than those of the client whose shares are being voted.
- D**irector Appointments:** Voting on the appointment of a company director with whom Downing has an existing commercial or significant relationship may present a conflict of interest.
- **Differing Views Among Investment Managers**: Conflicts may occur when investment managers within Downing have differing views and priorities for engagement, particularly when these views do not align with the broader firm strategy and house views.
- **Divergent Views Between Fund Managers and the Responsible Investment Team:** In some cases, the RI team may have a more negative stance toward a company than the fund managers, which could impact ongoing interactions or engagements with that company.

Our policy ensures that conflicts specific to stewardship are flagged and resolved in a manner that preserves the objectivity of our voting and engagement activities.

Managing Conflicts in Stewardship

Internal processes to manage conflicts within our stewardship activities include:

- **Conflict Resolution Mechanism**: When conflicts are identified, they are escalated to our Conflicts Committee, which determines the most appropriate course of action. For stewardship-specific conflicts, the committee may opt for enhanced monitoring, independent decision-making, or, where necessary, disclosure to clients.
- **Speaking with Clients**: When client objectives diverge in relation to stewardship activities, particularly in proxy voting or company engagement, we communicate with clients to understand their priorities and apply a balanced approach that seeks to align with their broad interests without compromising fairness.

Outcome

Maintaining High Standards of Integrity

Downing LLP operates a Code of Conduct and Business Ethics which applies to all colleagues. It aims for acting with integrity, upholding ethical standards and adhering to the best practices of markets and regulators. These describe how Downing, as a responsible investor, should be conducting business activities in a manner that considers social and environmental issues. Through these efforts, we continue to uphold our stewardship responsibilities in line with the expectations of the UK Financial Reporting Council, and of our clients.

In the reporting period – Q4 2023 to Q3 2024 – there were no occurrences of the stewardship conflicts which needed to be mitigated, using the approaches and polices that we speak about above.

Code Principle 4

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

Activity

Identifying and Managing Market-Wide and Systemic Risk

We have a risk management framework that identifies, measures, and manages risks. Outcomes of this include safeguarding our clients' interests, and contributions to a well-functioning financial system. We have identified specific risks that could impact our operations and investments:

- **Sustained Market Decline:** The risk that prolonged economic downturns and falling asset prices could significantly affect our portfolios.
- **Outsourced Service Provider Risk:** The risk that the failure or poor performance of a critical outsourced provider disrupts operations.
- **Cybersecurity Threats**: The risk that a cyberattack could lead to data breaches or financial loss.
- **Fiduciary Duty Failure**: The risk of failing to meet fiduciary obligations to clients, which could lead to reputational or financial damage.
- **Counterparty and Credit Risk**: The risk that Property Finance clients (borrowers) may default on loans or breach covenants, causing financial losses.

Our Risk team is independent from investment teams and is overseen by an Enterprise Risk Committee. This function is tasked with ensuring that adequate systems are in place to monitor and manage risks that may impact our firm and individual investment strategies. The approach has two components. First, an Enterprise Risk Management Framework. Second, Internal Capital Adequacy and Risk Assessment Process.

These components work together to ensure that risks are managed across all business areas, and that Downing LLP remains resilient to industry and market challenges. Each department within the firm is responsible for identifying and managing its specific risks, with the Risk and Compliance functions providing oversight and monitoring of external trends and regulatory changes.

The ERM Risk Profile is shaped by regular Risk and Control Self-Assessments, in which teams confirm their control frameworks and evaluate ongoing risks. This profile, and the most material risks from our Risk Register, is reviewed by the board regularly. This means that leadership is fully informed of key risks. Material residual risks are quantified and integrated into our business planning and capital management processes. This means that we maintain adequate regulatory capital to meet future challenges.

For listed equity investments, we monitor liquidity and concentrations of holdings and perform regular stress testing under different market conditions, including historical and hypothetical scenarios. The results are formally reviewed by the Investment Risk Committee, which meets quarterly and is led by an independent chair.

Responsible Investment Risk Management

In alignment with our broader risk management framework, the RI team implements a specialised, two-layer approach to managing ESG risks. This approach is integrated into the firm's overall risk management processes to ensure that ESG considerations are thoroughly evaluated and managed.

Firm-level ESG Risks:

- **Increased scrutiny:** Greater regulatory and public scrutiny of asset managers due to the backlash against ESG in recent years.
- **Misrepresentation**: Risk of unintentional or intentional misrepresentation of ESG-related information.
- **Unaddressed material factors:** Failure to identify or engage with significant ESG issues or controversies.
- **Loss of certifications**: Risk of expulsion from key ESG memberships, commitments, or certifications.
- **Regulatory non-compliance**: Missed regulatory requirements or developments related to ESG.
- **Climate change impact**: Direct harm to the firm’s operations from physical climate-related risks.
- **Exclusion from mandates**: Risk of being excluded from asset owner and client mandates due to ESG underperformance.

Investment-level ESG Risks:

- **Physical climate risk**: Damage to assets or interruption to business operations from extreme weather events.
- **Fines**: Penalties resulting from non-compliance with ESG regulations eg, greenwashing.
- **Sector stigmatisation**: Reputational damage to investments in sectors viewed negatively due to ESG concerns.
- **Asset impairment**: Devaluation or obsolescence of assets due to poor ESG performance or evolving market expectations, up to becoming ‘stranded’.

ESG Risk Watchlist

We use a Risk Watchlist to identify, monitor, and manage potential risks at our investments. This approach enables thoughtful stewardship and using a finite resource – time – to focus a dialogue on what's most meaningful.

Our Risk Watchlist is updated when risks are identified (some examples come below). This is looked at in detail each quarter, with a monthly attestation that it is being used; cases, latest developments and any emerging risks are reviewed. The process integrates external (Sustainalytics and HOLT) and internal data to provide a detailed view of each company's ESG risks and any present or potential 'red flags'. Our in-house proprietary ESG scorecard evaluates various risks including climate change, governance, social responsibility, and operational transparency. These data sources are important inputs to our Prioritisation Engagement Matrix, which guides our engagement by highlighting areas that require immediate attention or sustained dialogue. More detail on this matrix is in Principle 9.

Outcome

Each year, we update ESG scorecards as they are important for managing risks. This also means they remain current and capture developments over a year, like new FCA or ESMA rules, or treaties on biodiversity and plastics.

Following pre-investment ESG research using these scorecards, we identified sustainability actions for engagement post-investment. For example reporting greenhouse gas emissions, writing ESG policies, and improving corporate governance. These engagements insights have led to the completion of 14 sustainability actions by the companies within our Development Capital (private equity and credit) team. Before completion, progress was monitored, tracked and reported to boards quarterly.

It is similar for Energy and Infrastructure investments. Scorecards are completed prior to the handover of assets, ensuring comprehensive risk assessments are conducted. We also apply a procurement ESG screening tool, developed by the RI team, to evaluate risks in our supply chain, such as child labour or forced labour or high embodied carbon in materials. This screening tool is updated annually to reflect new risk profiles, and a rolling audit program ensures that the supply chain operates responsibly.

Response to Market-Wide and Systemic Risks

Climate Risks

Downing LLP is a net zero asset manager and has calculated our scope 3 financed emissions over 2023-2024. We have reported this in our Task Force on Climate-related Financial Disclosures within our sustainability report. This discusses how we manage climate risks, with detailed governance and risk management frameworks.

We engage with investee companies on climate risks, furthering our commitment to responsible stewardship (see Principle 9 for more details on engagement). There is a target for the number of climate related engagements: from a baseline in 2023 of 40% of all engagement covering climate and net zero, increase this by 5% to 10% each year.

Understanding climate risks is integrated to investment decisions. We have incorporated climate risk assessments into our ESG scorecards for listed equity and private markets. These scorecards evaluate the physical and transition risks faced by our investments, including potential damages from physical risks such as extreme weather events or increased costs from transition-related risks tied to a low-carbon economy. When climate-related risks or low ESG scores are identified, the investment case is passed to the RI Team for enhanced due diligence.

To support our analysis, we use external resources, including the PRI Inevitable Policy Response, 2 Degrees Investing Initiative for climate scenario analysis, the Transition Pathway Initiative for assessing carbon performance and management quality, and CDP for climate disclosure data. We publicly support TPI and TCFD.

Biodiversity Risks

Like climate risk, biodiversity risk is integrated into scorecards for all investment teams. We are not yet early adopters of the Taskforce on Nature-Related Financial Disclosures framework but anticipate reporting on biodiversity risks alongside our climate disclosures in future. In preparation, we have begun engaging with investee companies on TNFD and sent a letter in December 2023 to introduce the framework. Discussions early in 2024 focussed on understanding these companies' strategies, governance, and targets to biodiversity.

We have already taken significant steps to assess and manage biodiversity risks within Energy and Infrastructure. In 2023, we commissioned a report to map the habitats on land we own, ensuring that our land management decisions are guided by thorough environmental analysis. These assessments help with biodiversity improvements such as creating fish passages to aid migration, regulating water flow to support ecosystems, and increasing ecological monitoring to meet stringent environmental regulations. Implementation is through asset-level biodiversity action plans.

We also work with Operations and Maintenance contractors to ensure land management practices are appropriate for the local environment. We support biodiversity initiatives such as beekeeping on several of our ground-mounted solar sites. Our biodiversity goals, including a zero target for wildlife fatalities, align with our commitment to responsible stewardship.

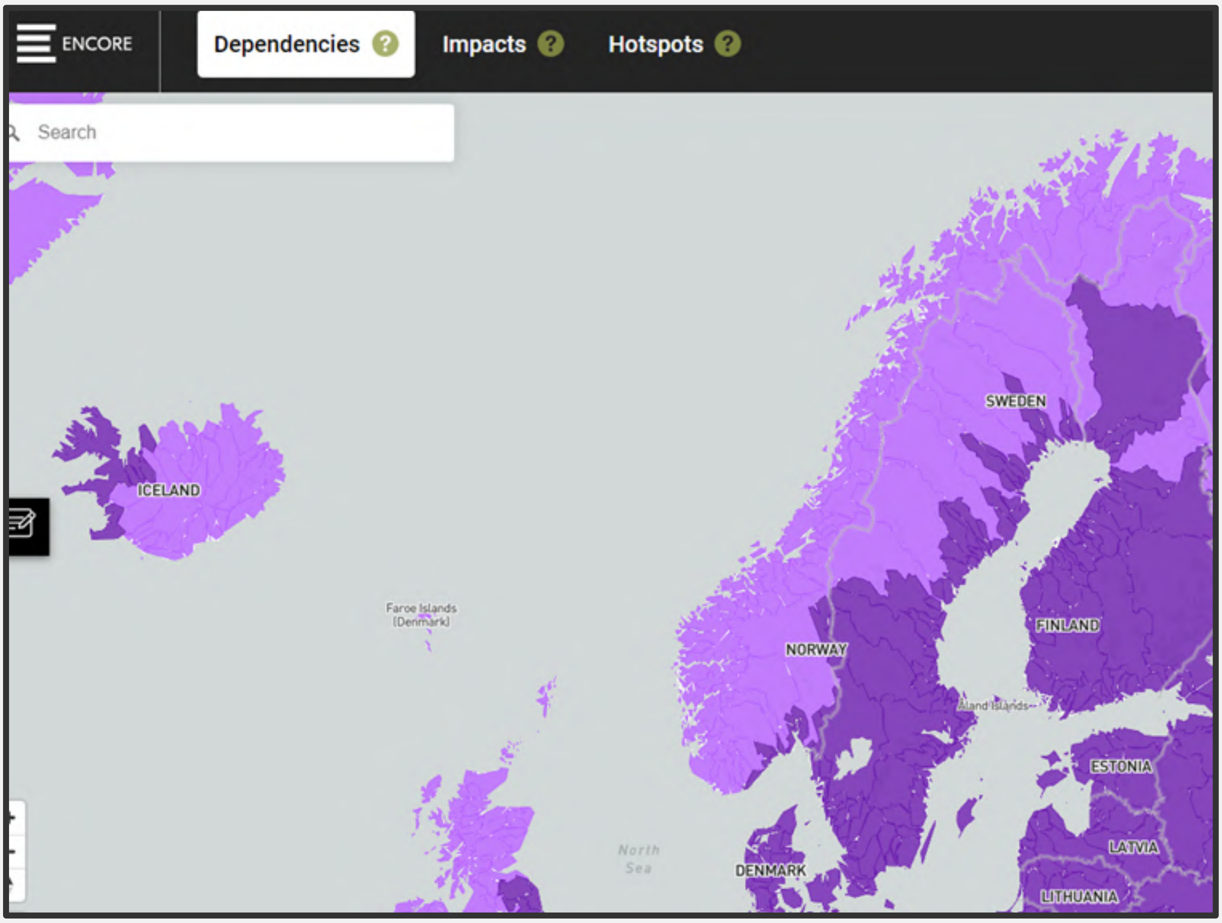
Example: using ENCORE

For natural capital, a useful tool from the UN Environment Programme is called ENCORE (for Exploring Natural Capital Opportunities, Risks and Exposure). This assesses the total biodiversity impacts and dependencies of investments.

Hydropower production (dependencies): three factors have a very high materiality and provide critical ecosystem services.

- Surface Water (collected precipitation and water flow from natural sources) as a direct physical input to power production.
- The Water Cycle (circulation of water through the atmosphere, land and oceans) as an enabler to power production.
- Climate Regulation (long-term storage of carbon dioxide) as a modifier to weather patterns and the Water Cycle at hydro assets.

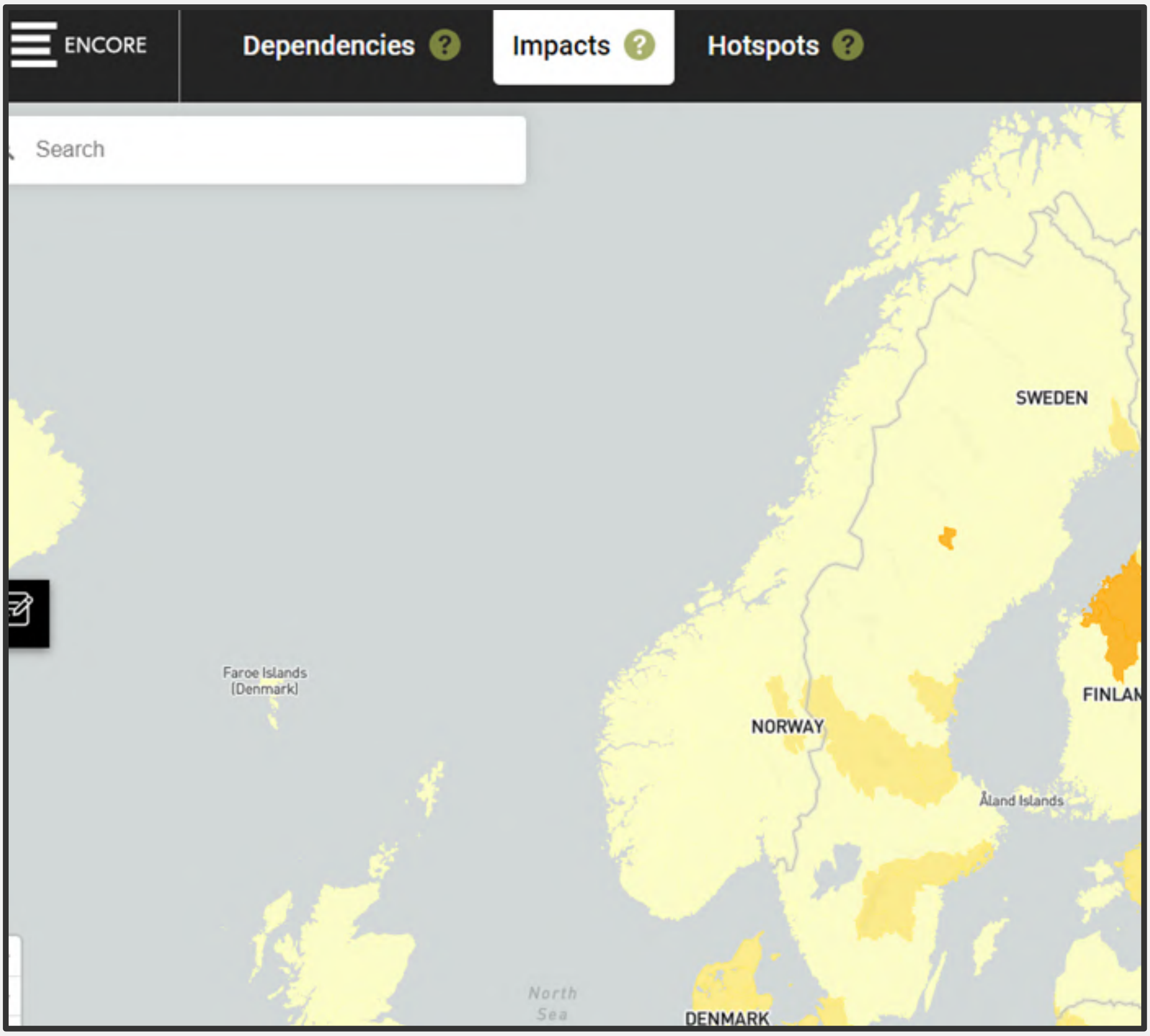
For the location of its hydro assets, ENCORE currently assesses the annual variability in i) Surface Water, ii) in the Water Cycle, and iii) for water in Climate Regulation as low (light purple). This means there are no immediate risks to these three ecosystem services that the assets depend on.



Hydropower production (impacts): three factors are materially impacted by this activity.

- Water Use (volume consumed) and diversion of water leading to an unsustainable ecosystem or localised droughts.
- Terrestrial Ecosystem Use – plants and animals can be displaced or killed.
- Freshwater Ecosystem Use (impacts to habitats) for hydroelectric dam power generation, and changes upstream and downstream, also to sediments, water flow and erosion.

For the location of its hydro assets, ENCORE currently assesses these impacts as low (light yellow). However all are valid risks considered in the ESG integration process for assets' specific impacts.



Similar assessments in ENCORE have been completed for solar and wind. Both have one material dependency for protection of the installations by the Climate Regulation ecosystem service, and no highly material impacts.

All this informs our approach to managing natural capital.

Case study

Practical application of the ESG Risk Watchlist.

Business services – monitoring engagement

Teleperformance

Risk Identification

Teleperformance was added to our Risk Watchlist following allegations of anti-union practices and infringements on employees' freedom of association across several global offices. These concerns were highlighted by reports indicating restrictive practices that undermined collective bargaining rights.

Response

- Investment in response to the credibility of the companies’ response to these allegations, up to board level, based on external data and with an internal monitoring plan created eg, updates from the company and external reports.
- **Proactive Company Actions:** Upon facing these allegations, Teleperformance took immediate and transparent steps to address the concerns. The company held online meetings with stakeholders to discuss the issues in detail and outline their planned actions to rectify the situation.
- **Audit and Transparency:** Teleperformance shared information about prior audits conducted on their workplace safety practices, demonstrating their commitment to maintaining safe and fair working environments. These audits provided an independent assessment of their labour practices.
- **Ongoing Communication:** The company maintained open lines of communication with shareholders and other stakeholders, providing regular updates on the progress of their initiatives to improve labour relations and ensure compliance with local labour laws.

Outcome

Teleperformance's efforts in addressing the allegations and improving their labour practices have led to positive outcomes. This is shown in data providers’ controversies screening, and in the share price. Note that we are still monitoring this company, after two years.

Case study

Practical application of the ESG Risk Watchlist.

Mining – active dialogue engagement

Risk Identification

Talga Group entered our Risk Watchlist due to a low score on the ESG scorecard. This was particularly for climate change in a high risk, hard-to-abate, yet structurally important, sector. The primary issue was the company's limited disclosure and monitoring of greenhouse gas emissions.

Engagement and Response:

- Exisitng holding, for whom – as with new holdings – ESG scorecard results are sent with a request to talk through, update any inaccuracies and share knowledge for improvement.
- Emission Disclosure: we encourage more transparent reporting of their greenhouse gas emissions, again especially given the sector. This included aligning their disclosures with industry best practices and regulatory requirements.
- Climate Action Plans: Our discussions focused on developing strategies for reducing their carbon footprint. Talga Group committed to setting measurable targets for emission reductions and integrating climate risk management into their core business operations.

Outcome

Talga Group is making progress in enhancing their climate-related disclosures and implementing reduction strategies. We expect emissions numbers in 2025 for the 2024 reporting period, and are monitoring. This has positioned them for possible removal from our Risk Watchlist in the next review cycle.

Macro Stewardship

Attention continues on market-wide, or systemic, risks that cannot be diversified away. These include geopolitics, climate change, war, extreme weather events, and societal inequalities. Recognising these, we view policy advocacy and promoting a well-functioning financial system as integral responsibilities of investors.

We actively engage with our peers, industry associations and policymakers for change. Through memberships and collaborations, we contribute to industry consultations, offer insights to policymakers, and keep informed of relevant developments. Below is a table highlighting our policy advocacy for the reporting period of Q4 2023 to Q3 2024.

Initiative	Activity
Letter to UK Govt	Clarity on UK's ongoing commitment to net zero and decarbonisation. Signed by £1tr of investors
Letter to UK Govt	Letter requesting a dialogue and consultation with investors about corporate governance requirements for listed companies
2024 Global Investor Statement to Governments on the Climate Crisis	Letter to encourage clear policies, disclosures and transition strategies
Investor roundtable with MPs	Ahead of the election, meeting with three Labour MPs for investor expectations of government. This included climate transition plans, sequencing of new rules, clarity on fid duty and centralised co-ordination. Expect focus subgroups next
LAPPF and CCLA letter	Letter to FTSE companies asking for a climate transition plan. Follow on engagement dialogue is proposed now
Planet Tracker Petrochemical Statement	Statement for high plastic risk companies (including some held by DFM) to consider disclosures, toxicity, governance and international agreements
ICGN engagement with EU	As the new College of Commissioners is being appointed, a group of investors is planning to engage for policies that promote good stewardship and governance. This is a less direct market for us so will monitor initiatives from afar and contribute if relevant
Guides and resources: **- QCA ESG** **- IGCN GSP** **- IIGCC Methane**	Contributor to working group discussions and then co-author to guides for: - Small companies to integrated ESG with the Quoted Companies Alliance - The 2024 update to the International Corporate Governance Network's Global Stewardship Principles - Investors to understand methane, not just carbon, emissions
IIGCC UK Policy Working Group	Continuing membership and the latest agreed priorities are operationalising GB Energy, sector roadmaps for decarbonising and nature

Code Principle 7

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

Activity

A universal approach

Our approach to ESG is embedded throughout the entire lifecycle of an investment. This process is driven by what we call the three E's: ESG Scores, Engagement, and Emissions. Each of these pillars works together so that we assess and manage corporate governance, natural capital and human capital risks, and surround this with active ownership and reporting and transparency. This is a continual process, whereby investment informs engagement, and then engagement informs investment, including decisions to buy more, hold or divest (noting the debate on voice over exit). This universal flow does not differ for funds, asset classes and geographies:

Integration to Investment Decisions: ESG Scores

Our proprietary ESG Scorecard is central to integrating material factors into listed equity and private markets investments. It provides a structured approach to identifying material risks and opportunities, guiding investment decisions, monitoring ongoing performance, and informing engagement strategies.

The updated 2024 Scorecard contains the below pillars and sub-sections of each pillar (see below). Each module contains questions (weighted by the sector) where each is ranked from 0 ('no awareness of risk') to 5 ('integrated into strategy and shows evidence'). It evaluates key areas such as climate change, biodiversity, human capital, and corporate governance The data is obtained from external service providers (see Principle 8), public disclosures and engagements (see Principle 9). These values are aggregated and converted to a percentage. This process also allows us to benchmark companies against their peers in the sector.

Corporate Governance Pillar	Climate and Natural Capital Pillar	Diversity, Impacts and Human Capital Pillar
Boards Module	Carbon Module	DEI Module
Management Module	Nature and Other Environmental Module	Impacts and Outcomes Module
Shareholder Rights and Protection Module		

The front sheet of the ESG Scorecard provides an overview of the investment's overall ESG score, highlighting key risks and, importantly, areas to explore and understand in ongoing stewardship activity. The scorecard is also designed to incorporate global standards and other external resources, such as the Task Force on Climate-related Financial Disclosures, International Corporate Governance Network, Taskforce on Nature-related Financial Disclosures, Conflict-Affected and High-Risk Areas and FAIRR.

SUSTAINABILITY AND RESPONSIBLE INVESTMENT
DFM SCORECARD: 2024 EDITION

Downing

Company	Lancashire
Fund	DSMI
Sector	Insurance

	Lancashire unweighted	Lancashire weighted	Sector Average	vs Benchmark
Corporate Governance Pillar Score	57%	39%	77%	
Boards Module	80%	59%		
Management Module	49%	29%		
Shareholder Rights And Protection Mod	43%	27%		
Climate and Natural Capital Pillar Score	31%	12%	71%	
Carbon Module	62%	23%		
Nature And Other Env Module	0%	0%		
Diversity, Impacts And Human Capital	40%	27%	64%	
DEI Module	27%	18%		
Impacts Module	53%	36%		
Total Governance And Capitals Score	**43%**	**26%**	73%	

	Sustainalytics Risk Smart	Sustainalytics GSS	Sustainalytics Product	HOLT
External Data	N/A	Compliant	No evidence	26%

Low Scores Or Risky Holdings – Subjects For Engagement	Need to understand their related party transactions – this is a potential risk and added to the ESG Risk Watchlist for the DFM Risk Committee. Also not clear on their approach to cyber (protection and reporting) and invr resolutions. Doing nothing on nature – insuring schemes might be one example. Maybe can make them aw are of the SDGs as we have done with others
Overall Comments (how company will handle sustainability challenges and opportunities)	Not a great ESG score and we should engage to help them to improve
ESG Commitment Level	Basic
Created By And Date	Saeeda Doolan 11/01/2024
Head Of RI Signature	29/02/2024

Image showing the Front Sheet of a listed equity ESG Scorecard.

For private markets, the results integrated into Investment Committee discussions. No investment can be approved by the Investment Committee, and completed, without clear evidence of ESG integration.

Initial, quick screens are available for any investment being considered at a very early stage; many of these do not progress to an actual thesis or decision to invest. An example is shared below.

ESG Monitoring

Listed Equity:
Once an investment is made, the ESG Scorecard is used to continuously monitor the company's performance. We conduct six-monthly reviews of listed equity funds, which include company benchmarking, results from external data sources (Sustainalytics and HOLT), and tracking greenhouse gas emissions for the fund. Any areas of concern, such as a company's failure to report emissions or poor governance practices, trigger further engagement, allowing us to understand detail.

Private Markets:
In private markets, post-investment monitoring is conducted quarterly, alternating between product and portfolio reviews. ESG factors identified during the initial investment phase are integrated into 100-day plans, ensuring they are addressed promptly. Sustainability actions are tracked and regularly reviewed to see their progress. Low scores from the ESG Scorecard, such as insufficient community engagement or lack of an ESG policy, have lead to targeted engagement with investee companies.

Exclusions and Enhanced Monitoring:
Both asset classes apply an exclusions policy (Downing Exclusions Policy and Private Market RI Policy). In cases where a company or sector falls within our exclusions criteria, such as involvement in controversial weapons or sectors contributing to adverse climate impacts, capital will not be deployed.

Exit Evaluations:
ESG evaluations have been done and remain an early stage. Similar to the pre-investment ESG analysis, we can perform a final ESG review at exit to assess the sustainability progress made during the investment period. Typically these are reserved for exits where we have been an active owner and empowered our investee to achieve positive change that we are able to demonstrate (and claim some credit for).

Engagement

Our stewardship philosophy is:

"Empowering investees to achieve positive change themselves."

This guiding principle is reflected in how we engage with the companies we invest in, aiming to drive real, measurable outcomes. Factors in stewardship efforts include:

- Results identified during pre-investment analysis, such as environmental and social risks or governance weaknesses, which we track throughout the lifecycle of an investment.
- Adding value for our clients, by ensuring that companies are well-governed, responsible, and positioned to succeed in the long term.
- Mitigating emergent risks, such as unexpected developments at the company or sector level.
- Resource allocation, from investment teams and the RI team to engage.

Our stewardship is grounded in our commitments as a signatory to the UNPRI where we scored four out of five stars in every module for the 2023 assessment (results for 2024 are expected in the fourth quarter); also as an endorser of the five ICGN Global Stewardship Principles (Global Stewardship Principles | ICGN), whose revision we contributed to in this period.

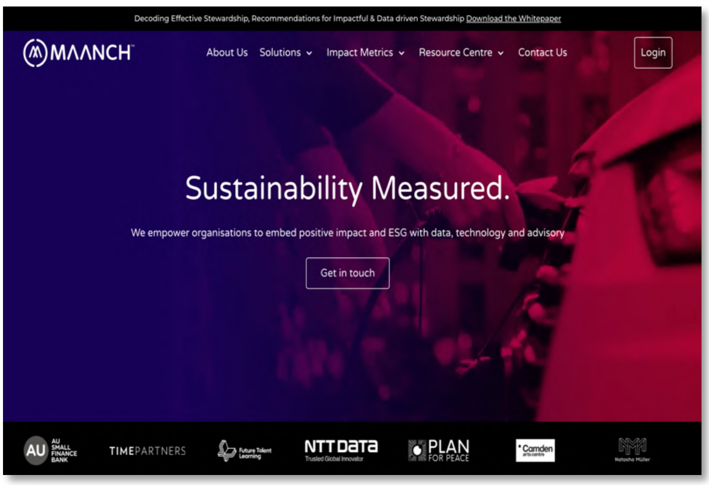
These commitments give us a strategic focus on each engagement, with a clear agenda and specific objectives. We approach each engagement as a collaborative partner, working with companies to achieve positive environmental or societal outcomes or to enhance their governance. However, we recognise that companies and managers make their own decisions, and our role is to provide context, rationale, and support that we believe is necessary.

Types of Engagement

We categorise our engagement efforts into four types, depending on the objectives and the subject:

- **Bulk campaigns**: These are typically letters or workshops addressing a common issue across multiple companies.
- **Collaborations**: Working with other investors, we engage in broader policy advocacy. Examples are in Principle 10.
- **Soft engagement**: This involves keeping in touch with investees, maintaining open lines of communication.
- **Targeted engagement**: These are more focused engagements aimed at specific outcomes, such as improving a company's climate strategy or governance practices.

All of our stewardship is tracked using the **Maanch Engagement Tracker** (https://maanch.com), a web-based tool specifically for engagement. This monitors company progress, performance, and manages escalation. It captures details, including company information, ESG scores, engagement issues, progress, and follow-up actions, providing a comprehensive view of our engagement efforts. This means our engagements are systematically tracked, allowing for better transparency and more effective stewardship outcomes.



Engagement in Private Markets

In private markets, each investment team follows a tailored approach to engagement, reflecting the unique characteristics of their assets:

- Energy and Infrastructure: Engagement focuses on Operations and Maintenance providers, also with local communities, with particular attention to sustainability standards and environmental performance. Actions for ESG and low scores or risks that are identified through the scorecard form part of the handover to Infram, the in-house asset management team.
- Development Capital: Engagement arises from low scores or risks identified through the scorecard, or from opportunities to enhance sustainability outcomes. These sustainability actions are closely tracked, again in Maanch.
- Specialist Lending: borrowers – UK housebuilders – are able to achieve a rebate on the interest rate of their loan if they embrace sustainability. This is assessed via a process that references the Sustainability linked Loan principles. After an initial assessment, we have dialogues about ESG scores and opportunities to improve and the financial outcomes this will lead to. There were five instances of this in the reporitng period, and the first ever loan is expected to reach practical completion in Q4 2024.

Voting is a client asset

Voting is equally important in our stewardship process. We vote on all resolutions, with decisions based on thorough analysis of ESG factors and alignment with our responsible investment goals. Our approach seeks to hold companies accountable, improve governance, and drive long-term value creation. For further details on our voting process and objectives, see Principle 12.

Prioritisation and Reporting

Our engagement prioritisation for listed equity is completed semi-annually. Companies are selected for focus based on the results of ESG research, engagement history, and voting activity. As we progress through each engagement, we maintain transparency and demonstrate the outcomes of our efforts through regular reporting; this stewardship report is one example, also case studies are included in client materials and our annual Sustainability and Responsible Investment report (66758360919875da276936d8_ESG020_Downing_Sustainability_Report_2024(compressed)V2.pdf (website-files.com)).

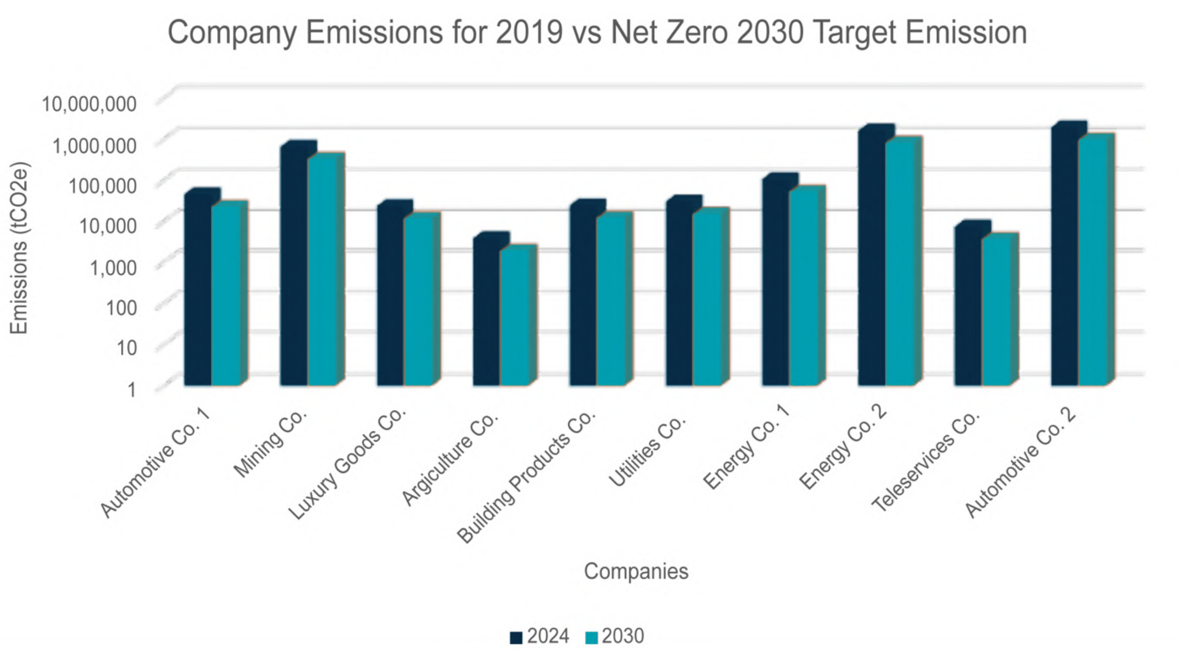
Engagement for climate and emissions

Climate is a major risk, a once-in-a-lifetime opportunity, and a geopolitical maze. Naturally it is a subject for engagement with almost all investees; our response and approach is in Principle 9.

Example of climate engagement: thought piece in Investment Week, August 2024

Climatological temperatures are high, with wildfires, heatwaves and 1.5°C breached for 12 consecutive months. Investors' ESG temperatures are high with litigation, fund outflows and criticisms. Two of these criticisms stand out in showing the current state of ESG investing: ESG has not had any material impact yet, and is used by investors to charge higher fees without doing much that's different. There is a data point that shows a response to these criticisms and captures both sets of temperatures: greenhouse gas emissions.

Investors need high quality data to integrate climate to their investment and engagement activity. Disclosures, strategies, risks, cash flow impacts, governance and scenarios all feature. A proxy for these, as with all of climate change, is what's happening with emissions, as shown in the graph below. The graph contains our actual holdings and shows a sample of the output of our approach for monitoring emissions.



Graph comparing companies' emissions for 2019 with Net Zero 230 Target Emissions.

Our proprietary ESG Scorecard includes a dedicated climate change module, designed to evaluate and manage climate risks and opportunities within our investments. This module integrates key frameworks such as TCFD and the Transition Pathway Initiative (TPI), enabling a comprehensive assessment of both physical and transition risks. The scorecard examines companies' emissions profiles, covering Scope 1, 2, and 3 emissions, with a focus on identifying areas for improvement in their sustainability practices.

We believe that tracking emissions is essential to understanding a company's role in climate change and the risks it faces in an evolving global economy. As part of our commitment to responsible investment, we ensure that our investee companies are held accountable for their environmental impact and are actively working to reduce their carbon footprint. Emission tracking not only mitigates climate-related risks but also reveals opportunities that arise from the shift to a low-carbon economy.

To support our net zero by 2050 target, we have taken significant steps in monitoring and reporting our own emissions. In 2023, we expanded our reporting to include Scope 3 financed emissions, which is outlined in our Sustainability Report. This data offers transparency into the carbon impact of our portfolios and allows us to engage with companies on their decarbonization plans. We also contribute to environmental sustainability through initiatives like peatland restoration in the UK, aimed at compensating for emissions and contributing to long-term ecological benefits.

In private markets, we use the Green Project platform, which is specifically designed for tracking emissions in private equity. We have already onboarded several of our portfolio companies onto this platform, enabling more effective monitoring and management of their carbon footprints. This initiative allows us to ensure that emissions are being accurately tracked and mitigated, which aligns with our broader sustainability objectives.

We also use advanced tools like the HOLT Linker to assess the financial impacts of climate change on portfolio companies. By analysing both physical and transition risks, such as regulatory changes or shifts in market demand, the HOLT Linker helps us understand how these factors affect a company's long-term financial performance. This enables us to integrate climate-related risks into our investment decisions while identifying opportunities in the transition to a low-carbon economy.

Our ESG Scorecards, combined with advanced tools and tracking platforms, ensure that both listed equity and private markets investments align with our net zero goals. This approach allows us to drive meaningful progress on climate commitments and contribute to sustainable, long-term value creation

Outcome

Engagement summary

In the reporting period – Q4 2023 to Q3 2024 –using our ESG scorecard we have researched the sustainability at:

29 listed equity companies and 12 private markets investments.

Outcomes from our engagement activity are considered in Principle 9. Here are wider examples of integration and of Principle 7.

Case study

Bayer – sold

Context:
Bayer has faced significant legal challenges due to ongoing litigation related to their product Roundup, which contains glyphosate, an herbicide that has been linked to cancer in several lawsuits.

Activity:
In early 2024, after ongoing monitoring and analysis through our stewardship efforts (dialogue was through an ESG data provider, also unrelated to this with Climate Action 100+), we decided to further investigate the escalating risks linked to Bayer's involvement in this litigation. Based on the information gathered, it became clear that the litigation risk was increasingly difficult to mitigate, and this posed a long-term threat to Bayer's financial stability and overall governance.

Outcome:
As a result of these growing concerns, the Downing European fund made the decision to sell its position in Bayer in January 2024.

Case study

AKER CARBON CAPTURE

Aker Carbon Capture – watching

Context:
Aker Carbon Capture was under consideration as a potential investment, given the role that carbon capture will play in responses to climate change. Our due diligence, including with brokers, revealed governance concerns regarding the misalignment between majority and minority shareholders. So, good for E, less so for G.

Activity:
We gathered information indicating that the majority shareholders' interests could overshadow those of minority shareholders, with limited governance mechanisms to protect the latter. We conducted further due diligence, engaging with external stakeholders to confirm these concerns.

Outcome:
Given the lack of sufficient governance protections for minority shareholders, we decided not to pursue the investment in Aker Carbon Capture. We are still conducting further due diligence, engaging with the company and external stakeholders to confirm these concerns.

Case study

Jacobs Solutions Inc – exclusion

Here is an example of a listed company that was rejected due to revenue from laboratories where nuclear weapons are designed and tested.

Factor	Question	Answer
Exclusions	Does the sector breach the Downing Exclusions Policy?	YES
Climate Change	Does the company report greenhouse gas emissions?	YES
Nature	Does the company report its biodiversity impacts?	YES
Social	Does the company report on health & safety?	YES
Social	Is there any evidence that the company has contravened, or is complicit in, modern slavery breaches?	NO
D&I	Is there gender diversity on the board and senior management?	YES
Governance	Is there an ESG or sustainability Policy?	NO
Governance	Are there: Nominations, Audit and Remuneration committees?	YES
Governance	Do investors have access / the ability to contact the Board, and is management willing to engage?	YES
Activity	Does the company claim to support any UN Sustainable Development Goals?	YES
Activity	Are there any significant positive ESG impacts?	NO

Source	Data	Result
HOLT	ESG score	No data
Sustainalytics	Evidence of controversies	Category 2 (Moderate)
Sustainalytics	Product involvement	Controversial Weapons, Military Contracting, Nuclear Energy, Nuclear Weapons, Oil & Gas
Sustainalytics	Global standards fail or watchlist	Compliant

Case study

Kids nurseries (private equity)

Context
A new platform and sector for children's care, acquiring existing trading business and creating new ones.

Activity
Material factors for a new sector were identified and then the scorecard was completed as part of the investment committee process.

Outcome
A low score (40%), however this gives us plenty of opportunities for us to engage with the new CEO and management team, and to improve the score. Actions for sustainability that we have agreed are reporting emissions, reporting KPIs (these two are universal), creating an ESG policy (also so common as to be almost universal) and improving the corporate governance, almost to standards of listed companies, as the business grows.

Code Principle 8

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

Activity

Monitoring Service Providers for RI Processes

The approach explained in the previous Principle uses three data sources:

1. **External ESG Data Providers:** Sustainalytics offers insights into controversies, behavioural norms, carbon emissions, product involvement, and overall ESG risk. HOLT provides data on sustainability, governance, and carbon performance.
2. **Focused Sector- or Company-level Data:** We continue to use sector-specific data sources (as shown below) to complement our broader ESG assessments, focusing on high-impact industries and companies. This targeted data helps us refine our engagement strategies and tailor our approach to the specific challenges faced by the companies we invest in. The full list follows, and scorecards identify which have been used.

Resource	Theme
As You Sow	Circularity, Plastic
CAHRA	Human Rights
CDP	Climate Change, Water, Forestry
Ceres Responsible Policy Engagement	Engagement (lobbying)
Climate Action 100+	Climate Change (eleven indicators)
Climate-aligned Accounting: Carbon Tracker Sector Checklists	Climate Change (accounting)
Climate And Energy Benchmark - Electric Utilities	Climate Change (Utilities)
Coal Exit	Climate Change (emissions)
Deforestation Action Tracker	Environmental
EU Taxonomy Navigator	Technical screening for sustainability
FAIRR	Food / protein production
Forest 500	Environmental
ISSB	Sustainability disclosure
Know the Chain	Social, human & labour rights
Lobby Map	Climate Change (lobbying)
Nature Action 100	Biodiversity
Planet Tracker	Environmental
Reclaim Finance	Role of finance in climate
SASB	All ESG Factors
SBTi	Climate Change (emissions)
SPOTT	ZSL's SPOTT platform is a leading resource of data and training on soft commodity supply chain sustainability
TNFD	Biodiversity
TPI	Climate Change (de-c and management)
UNPRI Advance	Human Rights
World Bank Governance Indicators	Country risk
World benchmarks / human rights	Human Rights

3. **Proprietary Research and Analysis**: In addition to external data, we conduct internal research and analysis to assess ESG risks and opportunities. Our view as active investors is the data in one and two above is a start point, to be supplemented with our own analysis and foundations for future engagement.

Outcome

A key development in the past year has been the implementation of **Maanch**, an engagement tracker.

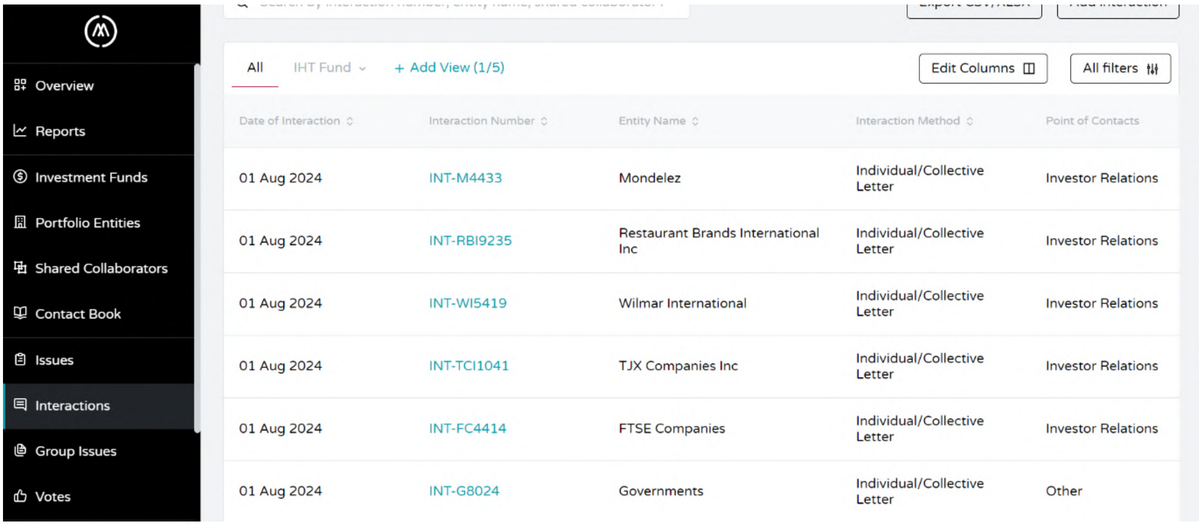


Image: view of interactions logged in Maanch

This has replaced Excel spreadsheets since the end of 2023 and enhances our ability to track, report, and analyse engagement activities. It also has real-time data, reporting capabilities, and improved transparency. This tool ensures that all engagement activities are recorded systematically and are easily accessible for analysis, decision-making and future dialogues.

Downing continues to work with **Agendi**, a sustainability consultant. Agendi supports us with calculating operational emissions and reviewing financed emissions. Last year, they recommended improvements, such as engaging material suppliers for Scope 3 Category 1 and reducing estimated data. We have progressed by incorporating sustainability into procurement and tracking employee commuting. For 2024, we are focused on expanding Scope 3 Category 15 coverage, improving energy tracking, and reducing estimates for refrigerant usage.

We regularly engage with our data providers—such as Sustainalytics and HOLT—to ensure the quality and accuracy of the data they provide. Where we find discrepancies or outdated information, we actively provide feedback to improve the relevance of their research. We perform annual commercial reviews of all providers, comparing their offerings with potential alternatives, and assessing new products (such as metrics for nature and climate value at risk) to ensure we are using the best tools available.

Case study

UBS HOLT – Enhancing ESG Data Utilisation

Context
Our engagement with HOLT has focused on enhancing our understanding of their data modules.

Activity
We held a series of dedicated sessions with HOLT in the reporting period. These focused on various modules, including the detailed analysis of management incentive structures. During these calls, HOLT provided comprehensive walkthroughs of their data offerings, helping us gain a deeper understanding of how to interpret and apply the information in our ESG assessments. The discussions also covered the importance of accurate data usage, ensuring we understood how to integrate HOLT's datasets into our proprietary ESG scorecards and wider analysis frameworks.

Outcome
We have improved the way we integrate HOLT's ESG data into our investment decision-making process. We are now able to use their data more accurately and efficiently, allowing us to enhance the depth of our governance analysis, particularly in areas such as management incentive structures and their alignment with shareholder interests. Our continued engagement with HOLT demonstrates the importance of collaborating with data providers to improve our ESG capabilities and ensure that the data we use is applied correctly and to its full potential. This approach supports our broader stewardship goals by ensuring that our ESG assessments are informed, accurate, and aligned with our responsible investment strategy.

Code Principle 9

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

Activity

This is How

Active engagement is central to delivering our fiduciary duties of loyalty and of care, as responsible stewards of the capital entrusted to us.

We discussed our ESG scorecard above and its role. This scorecard is made available to all investees and provides a structured foundation for our dialogues with the on sustainability and governance. We begin engagement with a written communication (formal letter if it is a specific concern or request, or email if informing). Then various methods such as calls, virtual meetings, and in-person meetings, depending on the subject matter and urgency.

Tracking engagement and the solution used, Maanch, is explained in the preceding Principle above. This supports structured, institutional learning from engagements, and escalation processes. Should an engagement not achieve the desired results, we can escalate the issue through further meetings, voting actions, or public shareholder resolutions.

Prioritising Engagement

We conduct semi-annual reviews to identify listed equity companies and topics for future engagement. This means that our engagement efforts are focussed on the issues and companies where we can have the most significant impact on governance, environmental sustainability, and long-term financial performance. This prioritisation is based on a combination of factors; each is binary and scored 1 or 0. The higher the score, the more pressing the need to engage, and it is these that are prioritised.

1. Internal Results (Risk Watchlist, proprietary scorecard)
2. Stewardship (voting follow-up, engagement follow-up)
3. Data Service Providers (HOLT Organisational Resilience Score, Sustainalytics Controversy level)
4. UNGC Participation
5. Materiality

Case study

Background and Rationale for Engagement

Aumann AG, a German industrial machine company, has been identified as a high-priority candidate for engagement, receiving a score of **4** on our prioritisation matrix. This assessment is based on:

- Low Internal Score 1
- Underperformance on HOLT Score 1
- Previous Engagement History 1
- Materiality of Climate-Related Risk 1

Focus of Engagement: Emissions Reporting

Our recent engagement with Aumann was on emissions reporting, especially as it is in a carbon-intensive sector. Comprehensive and transparent emissions data is essential for stakeholders to assess how the company is managing its carbon footprint and transition risk. Companies like Aumann, with notable environmental exposure, must demonstrate readiness to address these risks in a manner that aligns with global investor expectations and regulatory pressures.

Expected Outcomes and Next Steps

Based on the progress Aumann has indicated, we expect to see significant improvements in its emissions reporting in the upcoming reporting periods. Upon achieving these enhancements, Aumann's prioritisation score, and our engagement, will be reassessed to reflect the updated risk profile.

Climate Engagement for Net Zero

As a net zero asset manager, our climate engagement focuses on two tiers. Both featured in the reporting period of Q4 2023 to Q3 2024 (especially number one), and the first leads to the second, over several years.

- **Basic engagement**: Supporting investees in reporting greenhouse gas emissions, reports that follow the Task Force on Climate-related Financial Disclosures (TCFD) guidelines, and elevating climate issues at the board level.
- **Advanced engagement**: Focusing on companies' decarbonisation commitments, exposure to climate risks, and scenario analysis. We also assess how companies' operations contribute to temperature goals and how this affects their long-term valuations and resilience.

Collaborative Engagement

Collaboration with other investors is important. We participate in many investor coalitions on risks like climate change, human rights, and corporate governance. By joining forces with other investors, we can apply peer pressure and drive meaningful change, even when we are not the largest shareholder in a company. This is explained further in the next Principle.

Expectations Statements

For assets that we invest in, we have expectations statements for sustainability. These aim for a pragmatic balance that supports companies to achieve change and are not hard rules that prevent investment if the expectations are not met. They reference our policies and principles including the UN Global Compact, the UK Stewardship Code and the UN Principles of Responsible Investment

For any investment that receives debt or equity capital from Downing, we expect:

1. A willingness from management teams to communicate with us as investors on material ESG factors
2. A response to climate change and wider natural capital. This starts with the reporting of operational greenhouse gas emissions as fundamental
3. A credible approach to corporate governance at board, management and investor protection levels
4. Ideally, a policy that applies sustainability – including the three expectations above – to the way a company is managed and the impacts that it has

Transparency and Reporting

We are committed to transparency in all our engagement activities. We publicly report our voting statistics and engagement actions, providing detailed breakdowns by topic, region, and alignment with the UN Sustainable Development Goals. Where material agreements are reached, formal post-engagement letters are shared with the company to ensure clarity and follow-through.

This applies to voting also, where we may make public decisions to support a shareholder resolution or to vote against agenda items.

Outcomes

Case study 1

Listed Equity (company anonymised)

Context
We engaged with a company on succession planning for a new chief executive. This engagement was part of our ongoing dialogue with the company to ensure robust governance practices and alignment with long-term goals.

Activity
In our meeting, we discussed the qualifications and skills required for the incoming CEO, including skills and how to align the leadership transition with the company's future strategy (eg, no mergers as these are not an appropriate way to achieve growth). We revisited concerns about board independence, which we had raised in previous engagements.

Outcome:
The company has shown a willingness to incorporate our feedback on board succession and strategy alignment. This engagement continues to evolve, with the new CEO expected to be announced by the end of 2024 after working with an executive search firm to shortlist suitable candidates. And then a smooth transition is expected.

Case study 2

Listed Equity, Talga Group

Context
We engaged with Talga Group to discuss their ongoing efforts to improve sustainability across their operations. The discussion was broad, but the original agenda item was their Re-moss project.

Activity
During a virtual meeting with the CEO and head of sustainability of Talga Group (based in Australia), we discussed the Re-moss project in detail, focusing on its environmental impact and sustainability goals. Additional discussions included the Life Cycle Assessment (LCA) of their products and how they can enhance their CDP disclosures and align with the Taskforce on Nature-related Financial Disclosures (TNFD) framework. Talga sought our views on nuclear hydropower energy, reflecting their exploration of energy alternatives. We explored their preparations for the new European recycling regulations and discussed their research on recycled graphite. We shared insights on the financial benefits of biodiversity, which Talga is considering integrating into their broader sustainability approach.

Outcome
The engagement fostered a collaborative dialogue, with Talga welcoming our assistance in preparing for future ESG disclosures and regulatory changes. This meeting provided us with valuable insights into Talga's strategies on biodiversity and recycling, knowledge which we can leverage in engagements with other companies. The conversation also solidified our ongoing relationship with Talga, positioning them to align more closely with industry-wide sustainability standards and stakeholder expectations.

Case Study 3

Listed Equity, Lancashire Holdings

Context:
We engaged with Lancashire, an insurance company, to review our ESG scorecard. The meeting also provided an opportunity to deepen our understanding of the company's approach to ESG and its integration into their operations.

Activity
During the meeting, we discussed Lancashire's governance, particularly focusing on their ESG strategy, who is responsible for its implementation (an ESG Committee of the board), and how it is being carried out across the organization. As an insurance company, physical risk was a material topic, and we explored how they manage these risks within their business. The conversation extended to their social impact, focusing on how they treat and monitor employee satisfaction, along with plans for Taskforce on Nature-related Financial Disclosures (TNFD). We also explored 'insured emissions', a new concept. Insuring an asset, like providing debt or equity to it as an investor, means liability for its emissions, and other impacts like waste. And as for investors, there is guidance for insurers to report these impacts, which we can expect the sector, and this company, to start to report.

Outcome
This allowed us to clarify Lancashire's approach to key governance and ESG topics. Lancashire's willingness to engage on their TNFD planning and their consideration of environmental factors in underwriting demonstrates their commitment to evolving sustainability practices.

Case study 4

Listed Equity (company anonymised)

Context
We engaged with a company to discuss sensitive matters related to remuneration structures and long-term strategic direction, to ensure alignment between executive incentives and company performance. This engagement followed previous discussions concerning concerns raised about board governance and remuneration practices.

Activity
We addressed the company's primary remuneration performance metrics. We expressed concerns about the lack of clarity and emphasized the need for further disclosure. We also highlighted the importance of aligning remuneration incentives with ESG goals, acquisitions, and disposals, to prevent the risk of overpaying for poor performance or encouraging short-term, risky projects.

In addition to remuneration, the meeting covered strategic discussions with the newly appointed Chairman, specifically around the company's expansion strategy into new regions. We offered feedback on the potential risks and opportunities associated with this strategy, ensuring that it aligns with long-term shareholder value and responsible growth.

Outcome
While the company acknowledged our concerns, they committed to further engagement on these issues. The dialogue provided a clear opportunity to follow up on both remuneration practices and the strategic direction, with future discussions planned to assess the implementation of our recommendations.

Case study 5

Private Markets, Development Capital

Context
Potting Shed, a pub company, needed to get its colleagues and sites thinking about sustainability.

Activity
We helped the board directors draft a sustainability policy that is suitable for the sector. Factors include waste, refrigeration, vehicles, energy, gambling (slot machines), alcohol (addiction – support vs encouraging) and communities. We have also commenced onboarding (eg, collecting invoice data) Potting Shed for reporting emissions; as an operator of buildings, some of which are old, this is an important of the new sustainability approach and policy.

Outcome
The policy has been approved by the board and is live. And the first year of emissions data is expected by the end of 2024, after which how to reduce (eg, energy efficiency) will become a subject for enagement.

Case study 6

Private Markets, Specialist Lending

Context
We offer loans to UK house builders that are linked to sustainability.

Activity
We designed a framework to use the ESG score to cover multiple KPIs and targets (physical risk, operational and embodied carbon, and water, waste and biodiversity measures), and then an economic outcome for meeting these targets, with reporting and verification as well. Engagement discussions review the results of ESG scorecards on behalf of investment committee, and offer ideas on how to improve the score. For example, Solar water heating (domestic hot water), Air source heat pumps, Mechanical ventilation with heat recovery, Integrated roof mounted photovoltaic panels, Individual battery storage, Smart Home Energy Management, Triple glazing, Max heating temperature (eg, 22°C) or window sensors to switch off the heating if a window or external door is open, Cavity wall insulation, Passive by design (ie, little external energy is required to heat or cool the house).

Outcome
Discussions with multiple borrowers about sustainability in general and then specifics like this, including potential financial impacts (eg, loan interest rate drops by up to 100 basis points). And the first of these loans is expected to complete in Q4 2024.

Case study 7

Private Markets, Energy & Infrastructure

Context
There remains a continued commitment to UN SDG 13.3, to "Improve education, awareness-raising and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning". The Company that holds renewable energy assets is contributing to this by hosting educational site visits across the solar and hydro portfolio.

Activity
Two site visits on each four ground mounted solar sites, once a year. The Company also sponsors approx. 12 workshops per year for schools located close to the solar sites. This is through cooperation with Earth Energy Education. There are also school visits carried out on the hydro sites when interested is expressed by schools in the area.

Outcome
This partnership benefits and informs younger generations about the importance of renewable energy and its contribution to the climate, and shows a potential career path. Approximately 500 school children close to our solar sites get firsthand information on the renewable energy assets in their local area thanks to these contributions.

Case study 8

Listed Equity Campaigns, 30+ companies

Context
We aim to conduct a bulk engagement campaign at least once a year quarter. At the end of 2023 we launched a targeted campaign focusing on companies that were not participants in the UN Global Compact (UNGC) and to bring awareness of TNFD. We identified key companies to engage regarding their readiness for disclosure and management of nature-related risks. The selected companies — Kering, Eramet, and Munters — were already in the process of adopting TNFD, positioning them as priority targets for further discussions.

Activity
During discussions, we explored their preparedness for TNFD disclosures and how they integrate nature-related risks into their broader sustainability strategies. In addition to TNFD, we expanded the conversations to cover other key areas such as supplier engagement, governance structures, and climate risk management practices. By addressing these areas, we aimed to gain a comprehensive understanding of the companies' ESG frameworks and provide recommendations for improvement where necessary.

Outcome
s users of their disclosures, we offered to review the drafts and share opinions (eg, do they explain the ecosystem services the companies rely on and risks to these?). This is the next step.

The next planned initiative is an Ethics Campaign, targeting companies that either lack a formal ethics policy or have outdated codes of conduct.

Case study 9

Listed Equity, Multi Manager Funds

Context
For our Fox Multi Manager Funds, we completed 39 scorecards for our managers and have engaged with 13 of these managers so far. Each manager completed an ESG Questionnaire which provided the information to assess. Similar to our other scorecards, the questions are focussed around three pillars and each is ranked from 0 to 5:

- Corporate – ESG oversight, resources and policies.
- Investment & Climate – ESG investment philosophy and climate risk management.
- Stewardship – engagement and voting process and evidence.

We follow a similar process with regards to using the results to inform our engagements.

Activity
We engaged with a fund manager to discuss their approach to ESG and explore opportunities for enhancing their sustainability practices. This engagement was initiated following an analysis of their performance through our ESG scorecard, which identified pre-engagement questions. a common question this period has been: net zero commitment made, so what's the progress?

In our meeting, we discussed the manager's ethical values and philosophies, offering guidance on how they could formalize their ESG policies. We emphasised the importance of recognising climate change as a risk and an opportunity and explored their engagement approaches with stakeholders. The manager shared examples of their previous engagements, allowing us to gain insight into their ESG efforts so far. Following the meeting, we provided ESG analysis on their holdings and arranged a follow-up meeting to continue discussions on the key issues raised.

Manager reviews are scheduled by region and by sector; UK and Europe were the main focus over this period, and emerging markets and US are coming next.

Outcome
The manager was receptive to our suggestions, acknowledging the value of formalising their ESG approach. The scheduled follow-up meeting will focus on deepening our collaboration and ensuring that the company continues to enhance its sustainability.

Case study 10

Private Markets, Renewable Energy Development

Context
The Limes Farm Solar Project is a renewable energy initiative aimed at harnessing solar power to support local energy needs while contributing to the UK's emissions reduction goals of 68% vs 1990 levels. During the early stages of planning, there is always the importance of engaging with the local community to understand their concerns and gather feedback on the project.

Activity
In partnership with the Bourne Town Council, we organized a series of public engagement events, such as a community exhibition, to discuss the development proposals, address community concerns, and refine the project design accordingly. A key concern raised was the potential visual impact of the solar farm, particularly for those residing near the site. In response, we made specific design adjustments, removing certain areas of the project that were sensitive from both a land and visual perspective. Furthermore, we implemented additional screening measures, such as planting hedgerows, vegetation, and trees to create natural barriers and minimise the visual footprint.

As part of our commitment to delivering benefits to the local community, we introduced a residential solar scheme. Under this initiative, two local properties will receive a fully funded rooftop solar installation each year during the operation of the solar farm. This will reduce energy costs for these households and should help with a closer connection between the project and the surrounding community.

Outcome
The engagement activities at Limes Farm Solar Project demonstrated our commitment to listening and responding to community needs. By incorporating feedback, we were able to design a project that is more in harmony with the local landscape and provides tangible benefits to residents. The enhancements reflect our proactive approach to addressing community concerns and ensuring that the Limes Farm Solar Project is a positive, sustainable addition to the area

Engagement in numbers

Over the past year, Downing has actively engaged with 61 companies on 71 issues across 110 instances on ESG-related issues within listed equity and private markets, as recorded in our engagement tracker, Maanch. These engagements have primarily focused on key areas such as emissions, biodiversity, and governance structure. Geographically, the distribution aligns with expectations, with the majority of engagements occurring in the UK, followed by Europe. The graphs below provide further insights into our environmental activity, including its alignment with the Sustainable Development Goals.

Total Engagements

181

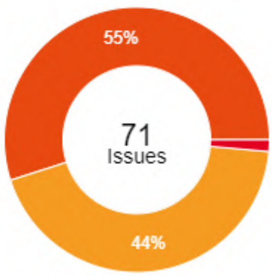
Total Issues	71
Total Interactions	110

Entities engaged with

121

Issues Created For	60
Interactions Created For	61

Issues by severity



Issue Severity

Amber	39
Yellow	31
Red	1

Interactions by region

Top Country engaged	%Split
United Kingdom	68%
Germany	9%
France	5%
Sweden	3%
Australia	3%

Regions Split	%Split
EMEA	93%
APAC	5%
NA	2%

Interactions only mapped for entities which have country selected

Top 5 engaged Entities (Issues + Interactions)

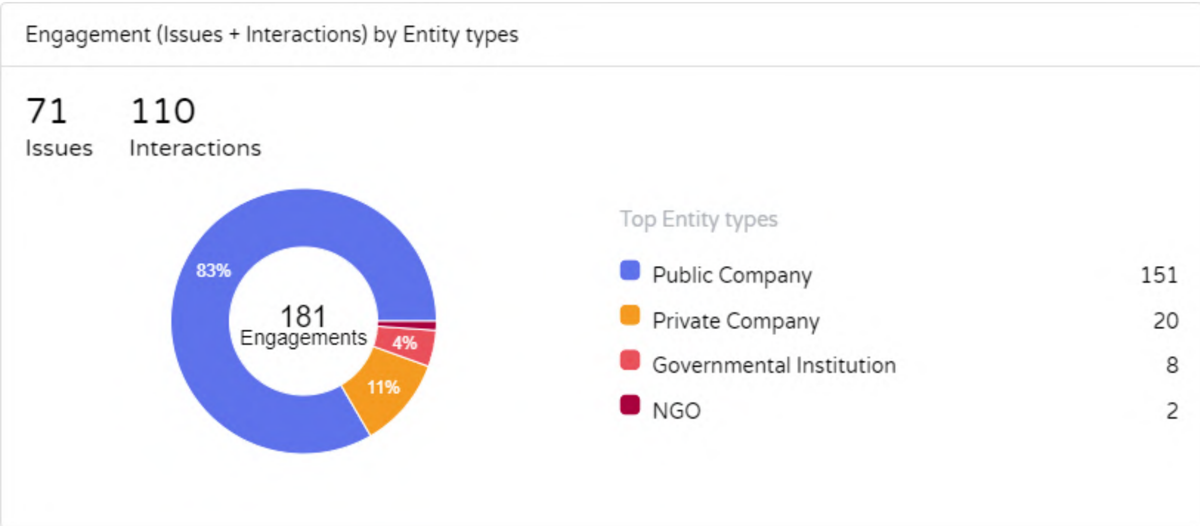
71 Issues

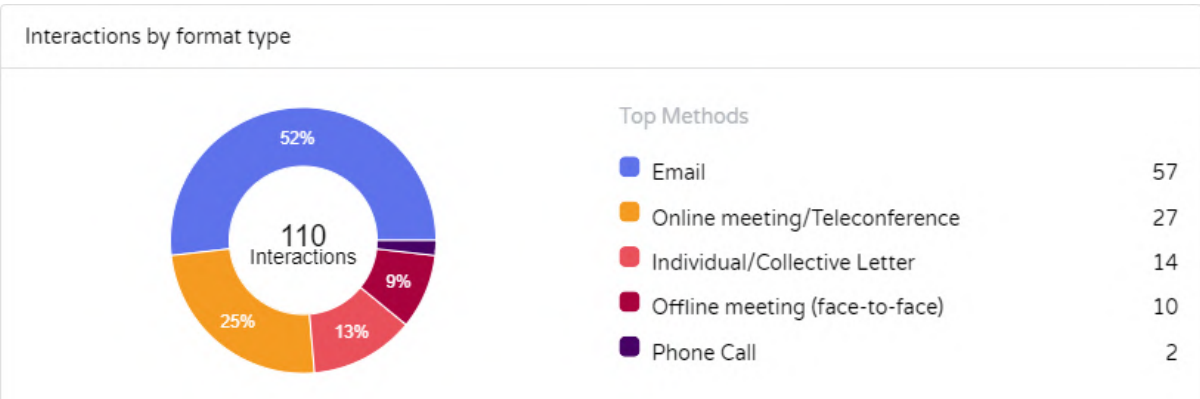
110 Interactions

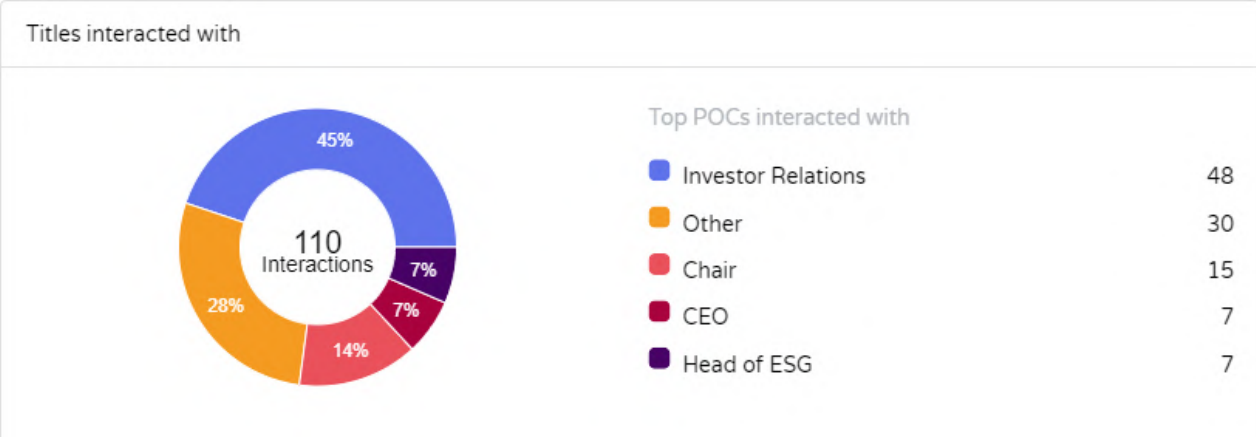
Top engaged entities

TB Whitman UK Small Cap Growth Fund C Acc GBP	8
H&T Group	8
Tracsis plc	6
Bridges Care & Education	6
UK Government	6

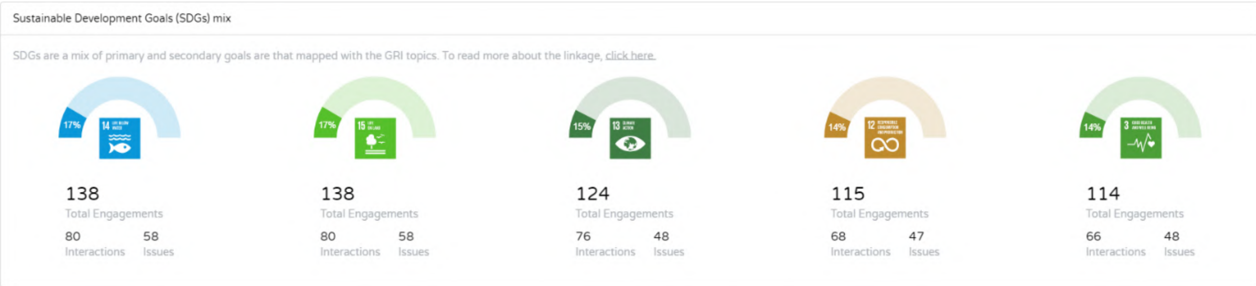

Engagement (Issues + Interactions) by sectors
71
Issues
110
Interactions
Top Engaged sectors
Financials 47
Consumer discretionary 23
Healthcare 14
Services 11
Basic materials 10

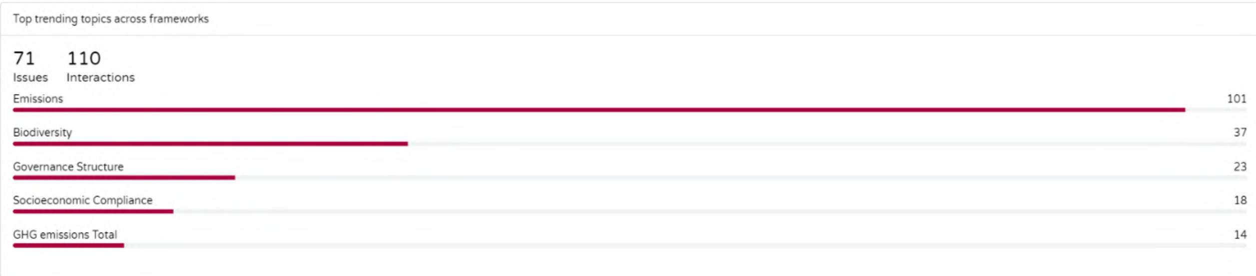

Engagement (Issues + Interactions) by Entity types
71
Issues
110
Interactions
181
Engagements
83%
4%
11%
Top Entity types
Public Company 151
Private Company 20
Governmental Institution 8
NGO 2


Interactions by format type
110
Interactions
52%
25%
13%
9%
Top Methods
Email 57
Online meeting/Teleconference 27
Individual/Collective Letter 14
Offline meeting (face-to-face) 10
Phone Call 2



Our listed equity engagements are mapped with the **UN Sustainable Development Goals** – referencing also their sub targets and indicators – to show that many topics discussed are aligned (compared to last year, we believe there is closer tracking of engagement this year and actual evidence is required in order to be mentioned here).





Code Principle 10

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

Activity

Thoughts on Collaborative Engagement

We recognise that collaboration with peer investors can lead to change in the companies we invest in and the broader financial markets. Collaborative engagement enhances our influence, especially when we are not the largest shareholders, and fosters alignment across stakeholders to address systemic risks such as climate change, governance, and societal inequalities.

Over the period of Q4 2023 to Q3 2024, we have continued to partner with other institutional investors to engage collectively with company management teams. Acting as block-holders, particularly when we hold a significant percentage of a company's share capital, we have seen that having consistent, structured engagement dialogues is more likely to lead to positive outcomes.

Working among other investors allows us to streamline communication with companies. Engaging collectively ensures that companies are not overwhelmed with multiple, fragmented conversations, thereby creating efficiencies from their perspective as well. We have heard complaints of 'engagement fatigue' from companies. A coordinated approach ensures that our concerns are addressed clearly and consistently, without companies having to duplicate efforts.

We are mindful, however, of the potential challenges inherent in collaborative engagement. We always ensure that we adhere to the "three Cs":

- **Confidentiality**: Protecting client information and maintaining privacy during engagements.
- **Avoiding Concerted Action**: Ensuring that collaboration does not cross the line into concerted actions, particularly when influencing share prices or the decisions of others.
- **Managing Conflicts of Interest**: Carefully navigating situations where our peers in collaborative efforts may also be our competitors, while complying with all relevant regulatory guidelines and fiduciary duties.

In circumstances where our direct engagement efforts or collaborations with peers do not yield the desired outcomes, we consider escalating our concerns through coordinated dialogue with other investors. This could involve collective shareholder resolutions or reaching out to broader industry groups to address persistent governance, social, or environmental issues.

Outcome

Stronger Together: Evidence of Collaborative Engagement

As strong advocates of collaborations and with many years of such experience, below are highlights for this period.

Collaboration	Company And Purpose	Activity, Outcome And Changes Made
Climate Action 100+	Multiple companies, discussing decarbonisation against benchmark indicators Utilities, Chemicals and Steel working groups: contributing to wider direction on the initiative	EDF, Bayer and Iberdrola: semi-annual reviews of updated benchmark results, and planning for the next phase of the engagement and scorecard updates
Nature Action 100	Multiple companies, discussing nature risk	Going through the six asks – with a focus on governance – with Wilmar and Mondelez. As these were first calls, progress so far on nature also came up
UNPRI Advance	Siemens: exploring rights (of land and of self determination) in Western Sahara	Support investor (signing letter and contributing to agenda and meetings). Two calls with the company but still more of 'this is what we do' instead of 'we are listening'
Ceres Food Emissions 50	Mondelēz: emissions reduction	Support investor (signing letter and contributing to agenda and meetings)
FAIRR Waste and Pollution	WH Group & Yara: new engagement on impact of agriculture to nature	Support investor (signing letter and contributing to agenda and meetings)
CDP Non Disclosure Campaign	Multiple public companies that do not participate	Collaborating investors, signing the letter and requesting a call to explain CDP
Mining 2030	Planning reforms for a greener sector for 2030+	Support investor and awaiting detail for how we can contribute with which companies (subject will be the toxic tailings waste)
Net Zero Engagement Initiative	Ence Energia y Celulosa: requesting targets for net zero, emissions reduction and disclosure	Discussion of their net zero plans in detail, and suggestions to improve eg, SBT and sector specifics
FAIRR Sustainable Aquaculture	MOWI – review benchmark results	Planned to commence in Q4 2024

Code Principle 12

Signatories actively exercise their rights and responsibilities.

Activity

An Important Client Asset

We view voting rights as a key aspect of stewardship and a powerful tool in holding companies accountable to all shareholders, not just the largest. We believe that every vote plays a role in influencing corporate governance and business performance.

We vote on all proxy proposals, amendments, consents, and resolutions at general meetings for listed companies held. As an estate planning provider, at times we can inherit shares to be managed before beneficiaries decide how to proceed; these are voted on in the same way as all other holdings.

Our view is to vote For or Against resolutions, avoiding abstentions where possible. While we generally support management, any resolutions that conflict with our internal policies or where previous engagement has not led to satisfactory changes will be voted against. The voting process is:

*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 adopt a pragmatic approach to voting, assessing each issue on its own merit and the specific circumstances surrounding it. On sensitive matters, we communicate directly with company management to ensure we make informed decisions. Whenever possible, we engage with companies ahead of votes to discuss our position, giving management the opportunity to address any concerns prior to the vote.

While we aim to reflect our expectations through voting, there are situations where voting alone does not fully convey our views. In these instances, we engage directly with the company's management to express our concerns constructively (see Principle 9 for more on engagement).

After voting, we provide feedback to the companies, either through brokers or directly, explaining our rationale. While not all investee companies respond, we continue to make this part of our engagement strategy to ensure transparency and accountability.

DFM supports a "comply or explain" approach to corporate governance, expecting companies to justify non-compliance and outline their plans for future compliance. For non-UK companies, we support adherence to similar national governance codes.

Case study

Example of Engagement after voting against management: Science in Sport plc

Dear IR Team,

Downing Fund Managers is a boutique active equity investor, based in London and with several strategies including global, European and small cap. As responsible investors and active owners, we place a strong emphasis on understanding the Environmental, Social, and Governance (ESG) structures of all the assets within our portfolios.

We are writing to inform you that we have voted for all resolutions at the AGM. As part of our ongoing commitment to informed and strategic voting, we would like to suggest that the company consider implementing a director skills matrix to accompany the director biographies. In our own efforts, we created a matrix with fields such as professional background, industry experience, and specific skill sets, which facilitated our evaluation process.

Additionally, we are keen to see the inclusion of ESG metrics in the evaluation of executive pay. We believe that incorporating these metrics will provide a more comprehensive assessment of executive performance and align with best practices in corporate governance. Both of these factors will be informing our votes in the future.

Downing LLP does not participate in any stock lending programmes.

The 2023 Downing Sustainability and Responsible Investment report contains key statistics and voting activity: sustainability report.

Voting in Action: Policy

The DFM Voting and Engagement Policy* outlines four key stewardship and voting principles, carefully designed to consider the diverse strategies of the funds we manage. This policy applies across all funds, with no separate voting policies for individual funds, and no minimum equity threshold for voting. We vote on all investee companies, regardless of the size of our holdings. The four principles are:

- Corporate Governance – Boards: This includes Board composition, Chairman and CEO roles, Non-Executive and Independent Directors, Board functioning, Charitable and political donations, Board committees, and Director re-election.
- Corporate Governance – Management: Compensation, Audit, and Accountability to Protect Shareholders: Focused on Remuneration, Audit and auditor fees, and Risk identification and management.
- Corporate Governance – Shareholder Rights: Increases in share capital, Pre-emption rights, Dilution of equity, Dividends, Voting structures
- Natural Capital: Disclosures, Climate change, and Investor collaborations.

This Policy is updated annually (in the first quarter) to incorporate latest trends in voting and stewardship.

We believe this process fulfils our fiduciary duty. We do not offer clients the ability to override our voting decisions. But we are monitoring the evolution of 'voting choice'. And other evolutions in voting like robo-voting (hard coding to automatically make certain decisions) and the FCA's vote reporting table.

* 6582f3daf31ff0c531a23f96_ESG018_DFM_Voting_&_Engagement_policy_Jan_2024.pdf (website-files.com)

Outcome

Voting in Action: Numbers

For the reporting period,

We voted at 200 company meetings, casting a total of 2,203 ballots.

Five per cent were against management recommendations. The graphs below provide further insights into our voting activities, which are also logged in Maanch. Through dialogue with smaller investee companies and ongoing research on larger firms, we often remain informed of actual vote outcomes, allowing us to respond and in alignment with our investment stewardship objectives.

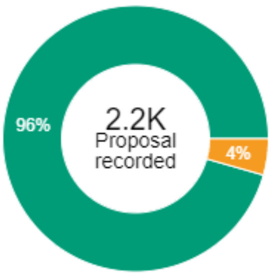
Meetings voted at

200

Proposals voted for

2203

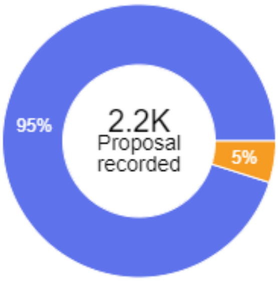
Voting Instructions



For	2106
Against	97

Out of the 30 Sep 2023 to 30 Sep 2024 distinct proposals open for voting, a total of 2203 votes were cast.

Alignment with Management



■	For management	2095
■	Against management	108

ⓘ Approximately 95% of the votes aligned with management recommendations, while the remaining 5% went against the recommendations provided by management.

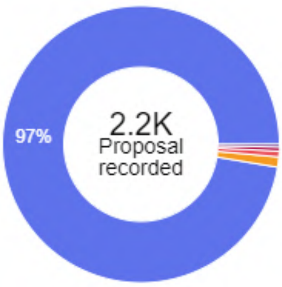
Votes cast by Proposal Category

Top 5 categories. These include Management + Shareholder meetings.

Director Election	906
Capitalization	520
Audit Related	238
Routine Business	211
Compensation	197

ⓘ During the specified period, management took the initiative to sponsor 2192 proposals, while shareholders contributed with 11 proposals. The most common categories for proposals were Director Election.

Votes by Meeting Type



Top 5 Meeting types

■	Annual	2145
■	Annual/Special	26
■	Extraordinary Shareholders	15
■	Ordinary Shareholders	10
■	Court	7

We have updated our voting table, used to track voting decisions. This is in order to make reporting more standardised and comparable (eg, reasons against). Reasons include:

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

Voting in Action: Examples

We do not use the services of proxy advisors and prefer to do our own analysis of a vote. This means we do not have access to any meeting results service and the content below is based on researching each case individually.

Vote Example #1

Resolution: Appointment of Deloitte & Associés as statutory auditors in charge of certifying sustainability information (Resolution #12) at Worldline, June 2024

Our Vote: **Against**

Rationale: We voted against the appointment of Deloitte & Associés due to the auditor's tenure of 27 years with the company, which exceeds the recommended practice for auditor rotation. In the UK, it is recommended that an audit firm should rotate after a maximum of 20 years to ensure independence and prevent any conflicts of interest. Maintaining the same auditor for such a long period can lead to reduced objectivity and challenges in maintaining transparency.

Result: The resolution passed with 97.85% voting in favour.

Wider Response: The overwhelmingly positive vote from other shareholders and the issuer suggests that the wider investor community is less concerned about the auditor's long tenure, potentially due to satisfaction with Deloitte & Associés' performance in certifying sustainability information. However, we believe adherence to best practices, including auditor rotation, is crucial for strong governance and accountability.

Vote Example #2

Resolution: Reappointment of a director of the company, having retired by rotation (Resolution #4) at Knights Group, September 2024.

Our Vote: **Against**

Rationale: We voted against the reappointment of a director following our analysis using our own Director Skills Matrix, which assesses directors based on key competencies such as independence, finance, international markets, sustainability, diversity, and human capital management. This director scored low across several of these critical areas, raising concerns about his ability to contribute effectively to the board, particularly in terms of diversity and experience in key sectors. As governance standards evolve, we believe board members should possess a strong mix of skills to meet the company’s strategic needs.

Result: The resolution passed with 97.22% voting in favour.

Wider Response: The broader support reflects a general level of shareholder confidence in the director's contributions to the company or a perceived alignment with the board's existing strategy. In many cases, institutional investors may prioritise stability, continuity, or familiarity over individual skill assessments, particularly if they are satisfied with the company's overall performance and governance practices.

Vote Example #3

Resolution: Report on data operations and human rights hotspots (Resolution #11) at Microsoft Corporation, December 2023.

Our Vote: **For**

Rationale: We voted in favour of this resolution as it aligns with our commitment to promoting transparency in corporate operations, especially in areas where human rights risks are significant. Microsoft operates in regions classified as human rights hotspots, and we believe that enhanced reporting on how the company manages its data operations in these regions would provide greater accountability and align with global expectations for human rights due diligence. This kind of reporting would also allow investors to better assess risks and ensure that Microsoft's operations are consistent with international human rights standards.

Result: The resolution failed, with 33.35% voting in favour.

Wider Response: The relatively low level of support suggests that a majority of shareholders are either satisfied with Microsoft's existing disclosures or do not prioritize human rights risk reporting as a critical issue. However, the support from over 33% of shareholders indicates growing concern among some investors about the company's operations in human rights-sensitive regions.

Vote Example #4

Resolution: To authorise the Directors to allot equity securities for cash without making a pre-emptive offer to shareholders (Resolution #14), at Tatton Asset Management,

Our Vote: **Against**

Rationale: We voted against this resolution as the percentage of equity securities to be issued without pre-emption rights was too high, exceeding what we consider appropriate for protecting shareholder interests. Pre-emption rights are crucial to safeguarding existing shareholders from dilution, and we believe maintaining these rights supports better governance practices. This stance is also aligned with our voting policy, which prioritizes shareholder protections in capital allocation decisions.

Result: The resolution passed with 94.92% voting in favour.

Wider Response: The overwhelming support for the resolution suggests that the majority of shareholders were comfortable with the company's capital allocation plan and were not concerned about the potential dilution of their holdings. However, we remain firm in our belief that the proposed issuance without pre-emption rights sets a concerning precedent for future governance practices.

Vote Example #5
Resolution: Authority for political donations and expenditure (Resolution #12), at Inspecs, June 2024

Our Vote: Against

Rationale: We voted against this resolution as we believe that political donations and expenditures can present risks related to transparency, governance, and alignment with shareholder interests. Companies should focus on creating long-term value for shareholders rather than engaging in potentially controversial political activities. Our policy advocates for clear boundaries on corporate political involvement to ensure accountability and avoid reputational risks.

Result: The resolution passed with 89.53% voting in favour.

Wider Response: The strong support for the resolution indicates that the majority of shareholders were comfortable with allowing political donations and expenditures. However, our vote against reflects our stance that companies should prioritize transparency and avoid engaging in political activities that could divert focus from their core business objectives.

Vote Example #6
Resolution: Approval of directors' remuneration policy (Resolution #1).

Our Vote: **For**

Rationale: We voted in favour of this resolution after evaluating the directors' remuneration policy using data from our service provider, HOLT, to assess how the company's executive compensation aligns with peers in terms of performance and profitability. Based on the analysis, we found that the remuneration was reasonable and consistent with industry standards, supporting long-term value creation for shareholders.

Result: The resolution passed with 76.44% voting in favour.

Wider Response: The majority vote in favour suggests that most shareholders were satisfied with the company's approach to executive pay. However, the relatively moderate approval indicates that a significant portion of shareholders may have had reservations about certain elements of the policy. Nevertheless, the company's alignment with peer compensation practices likely contributed to broader shareholder support.

Exercising Rights In Private Markets

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

- A right to appoint a director to the board of the investee company to monitor the investment – where our investment stake is smaller, we would typically take either a right to appoint a director or an observer to the board (depending upon the maturity of the company and the existing board).
- The right to receive regular financial and trading information, including management accounts and cashflow forecasts in order that we may compare these against the investment business plan.
- As a fail-safe to deal with situations where we either receive incomplete information or have concerns as to its accuracy, we have further rights to appoint an external accountancy to undertake a review of the systems and processes of the investee company.

- Downing's consent is required to undertake key decisions affecting the company, such as material expenditure outside the agreed budgets as well as corporate actions such as changing the rights attaching to the shares. We have further veto rights over actions which may prejudice the EIS and/or VCT qualification status of the investment in order to protect our investors' positions.
- In addition to the contractual consent rights, we also require in most investments that an investor representative is added to the bank mandate in order to prevent any abnormally large payments from being paid by company. This is a general request as an anti-fraud measure and not specific to a particular investee company.
- The management team are required to agree to restrictive covenants, preventing them from acting in competition with the company should they no longer be employed by it. We also check that any intellectual property rights have been properly assigned to the company and are no longer vested personally in the management team.
- Whilst the capital structure of our investments varies from company to company, we typically aim to protect our investors in a downside scenario by requiring that any proceeds of sale are disproportionately paid to investors rather than the entire shareholder base. Whilst these investments remain high risk, this assists to maximise the recovery should the investment not be as successful as anticipated.

We also require:

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

Examples

Through these rights, in the reporting period of Q4 2023 to Q3 2024, we have:

- Improved the governance (including CEO and board structure and operations) at nine care homes, and commenced similar at operators of children day care nurseries
- Continued with a directorship strategy for renewable energy assets (eg, new hydropower sites in Sweden). This includes ESG as a mandatory agenda item, and for the board: composition and membership, packs, independence and committees

Supply Chain Risk Assessment in Solar and Hydro Energy

In the period we continued to use a new, internal Supply Chain Risk Assessment for human rights risk in solar. Eighty per cent of solar is from China, much of which is in the Xinjiang region; reports of forced labour are known, and it is in response to this risk that we created the screen.

The screen is based on data sources and frameworks to evaluate country and supplier-specific risks. We use the World Bank Governance Indicators to assess factors such as voice and accountability, regulatory quality, rule of law, and control of corruption. and the total score provides an overall risk rating for the supplier's country. We use Sustainalytics' controversy data to highlight any adverse impacts related to the supplier, assess their compliance with US Sanctions, and verify their participation in the United Nations Global Compact. Each of these indicators is scored on a scale from -2.5 (indicating high risk) to 2.5 (low risk), and the total score provides an overall risk rating. Each supplier assessment receives a final score based on these criteria. And we have managed risk and exercised rights as a customer, not just as an investor.

For industry-specific risk management, we also incorporate Solar Stewardship Initiative membership for solar suppliers (we became members of SSI in the reporting period), and International Hydropower Association membership for hydro suppliers. These memberships help to validate suppliers' commitments to sustainability best practices within their respective industries.

Investments that matter

10 Lower Thames Street
London EC3R 6EN

020 7416 7780
customer@downing.co.uk
www.downing.co.uk

October 2024

Downing