# ANNUAL STEWARDSHIP REPORT 2020

CASTLEFIELD

THE THOUGHTFUL INVESTOR

# PRINCIPLES OF THE UK STEWARDSHIP CODE 2020

This report covers the year 1st January 2020 through 31st December 2020.

In order to meet our reporting requirements under the recently enhanced UK Stewardship Code, we're using a tagging system to link different aspects of our report back to the underlying principles of the Code. These principles can be seen below.

**View it here:** The UK Stewardship Code 2020 **or go to this address:**

| PRINCIPLES | | | PAGE TAGS (LINKS) |
|---|---|---|---|
| 1 | PURPOSE, STRATEGY AND CULTURE | Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. | p.4 p.5 p.15 p.24 p.25 |
| 2 | GOVERNANCE, RESOURCES AND INCENTIVES | Signatories' governance, resources and incentives support stewardship. | p.23 p.24 p.25 p.26 p.27 |
| 3 | CONFLICTS | Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first. | p.29 |
| 4 | PROMOTING WELL-FUNCTIONING MARKETS | Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system. | p.28 |
| 5 | REVIEW AND ASSURANCE | Signatories review their policies, assure their processes and assess the effectiveness of their activities. | p.23 p.27 p.28 |
| 6 | CLIENT AND BENEFICIARY NEEDS | Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them. | p.28 p.29 |
| 7 | STEWARDSHIP, INVESTMENT AND ESG INTEGRATION | Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities. | p.4 p.5 p.23 p.27 |
| 8 | MONITORING MANAGERS AND SERVICE PROVIDERS | Signatories monitor and hold to account managers and/or service providers. | p.27 |
| 9 | ENGAGEMENT | Signatories engage with issuers to maintain or enhance the value of assets. | p.6 p.7 p.10 p.11 p.16 p.17 p.27 |
| 10 | COLLABORATION | Signatories, where necessary, participate in collaborative engagement to influence issuers. | p.6 p.12 p.13 |
| 11 | ESCALATION | Signatories, where necessary, escalate stewardship activities to influence issuers. | p.16 p.17 p.27 |
| 12 | EXERCISING RIGHTS AND RESPONSIBILITIES | Signatories actively exercise their rights and responsibilities. | p.16 p.18 p.19 p.20 p.21 |

# FOREWORD

As we begin 2021, here in the UK we find ourselves subject to stringent lockdown measures once again, albeit with the prospect of vaccinations providing some light at the end of the tunnel and cautious optimism that society might see restored many of the freedoms previously taken for granted. Nonetheless, while we bear these personal burdens for the greater good, corporate life continues as best it can and, as investors, we see a duty to seek suitable outcomes for all stakeholders in the companies we own. The pandemic doesn't change this, in fact it makes some areas all the more acute to focus on.

In this report – with which we formally move our Annual Stewardship reporting cycle to a calendar year-end basis to tie in with the Financial Reporting Council's Stewardship Code timetable – there is a combination of regular updates on examples of our voting activity alongside specific projects undertaken during the year. The latter includes our direct engagement work with investee companies as well as our participation in collaborative efforts. We also include detail on investments that fit with our positive themes and in contrast, positions that we've exited given our concerns over corporate behaviour and the risks that brings.

Aside from becoming adopters of the new Stewardship Code with our Annual Stewardship Report last year, there are two further items of note to highlight here. One is that it's an objective of ours to widen the accessibility of 'Thoughtful Investing' to as broad an audience as possible and, in that vein, we launched our second Portfolio Fund in July 2020, entitled the CFP Castlefield B.E.S.T Sustainable Portfolio Income Fund. As the name implies, its focus is on generating the income that many investors rely on, be they charities or individuals. Alongside its elder sibling, the CFP Castlefield B.E.S.T. Sustainable Portfolio Growth Fund, we now have two such strategies with which investors can readily access our expertise as set out in this report.

The second is that we were delighted to agree on the addition of a new member to our External Advisory Committee, Dr Ilma Nur Chowdhury of the Alliance Manchester Business School. Dr Chowdhury joins at the next meeting in February, and her expertise in social and supply chain issues will be invaluable in helping the Committee provide independent oversight and challenge to our work.

Looking out for the rest of 2021, each element of Environmental, Social and Governance factors will be of more importance than ever. For the latter, we'll continue to hold to companies to account and to press for the highest standards of corporate behaviour. In a Social sense, there will inevitably be scarring from the highly regressive effects of the pandemic and investors should seek to influence where possible actions that provide better outcomes across gender, race and wealth levels. As for Environmental issues, in 2021 we are building towards the 26th UN Climate Change of the Parties conference (COP26) in Glasgow in November, and the growing expectations of major developments in tackling climate change. Let's see where we stand in each of these areas in twelve months' time.

Finally, as we closed with in our previous Annual Report, **please get in touch if you'd like to work with us to achieve this.**

**Simon Holman**
**Partner, Head of Client Investments**

# THE B.E.S.T SUSTAINABLE INVESTMENT PROCESS

An integral part of how we invest money involves taking a view on environmental, social and governance (ESG) criteria. We believe that our approach to ESG criteria is one of our key strengths, as they are embedded in our investment process. Our premise is that investment returns will be improved by looking beyond traditional, strictly financial criteria. We believe that companies whose management teams are attuned to business risks, in areas such as the environment or the treatment of their workforce, are more likely to avoid major problems which could impair investment returns.

With this in mind, we've developed a proprietary investment selection system – the B.E.S.T Process – to assess the merits of competing investment choices. It's used across and within asset classes and provides a consistent framework for assessing all investment opportunities at Castlefield. It's not a filter or screen, but a responsible investment process which incorporates four main criteria to assess both financial and non-financial attributes that we think can affect long-term investor returns.

**B** **Business & Financial:**
What kind of returns or performance target does the investment aim to achieve?

**E** **Environmental & Ecological:**
What is our assessment of any claims made on an environmental theme?

**S** **Social:**
Does the investment aim/claim to have a positive social influence and if so, how?

**T** **Transparency & Governance:**
Are the aims observable and/or measurable?
Can we understand how it's supposed to generate the expected returns?

Initial idea generation takes places through channels such as fundamental screening and company meetings.

→ For our B.E.S.T Sustainable Funds, the company, fund or issuer would then be assessed against our Screening Policy.

→ The full B.E.S.T analysis is then completed.

→ All investment ideas are discussed by the investment team before a decision is made.

→ Once invested, all assets are subject to ongoing monitoring and our stewardship and engagement processes.

As long-term investors, the incorporation of ESG and sustainability analysis is integral to our research on all asset classes. There are many issues that may be considered by some to be 'non-financial', but it is our view that over many years, these factors, such as good governance and a company's reputation or social licence to operate, will result in better outcomes for those businesses and investors.

All assets invested in directly for clients and for our funds are subject to the B.E.S.T Process. The incorporation of our Screening Policy is applicable to our B.E.ST Sustainable fund range, which includes all of our single-strategy equity funds and two multi-asset, Portfolio funds. Where clients are not invested in the fund range but are directly invested in UK equities within segregated accounts, we also apply our B.E.S.T Sustainable process and clients also have the ability to incorporate their own values by way of an ethical questionnaire.

Principle 1 Principle 7

# SCREENING POLICY

Our screening policy was developed with the views of our investors in mind. Having direct relationships with our clients and those of our sister business, Castlefield Advisory Partners, means that we have been able to take into account the common views and topics of concern across our client base when developing our policies. This has previously involved a client-wide survey and, more recently, we have used client questionnaires – part of our onboarding process for clients with directly invested portfolios – to assess the most common client concerns and interests. We also have client representation on our External Advisory Committee.

This B.E.S.T process is supplemented by our B.E.S.T Sustainable Screening Policy. The policy sets out the type of investments that are not suitable for the B.E.S.T Sustainable fund range. We will not invest in any company or issuer that derives more than 10% of revenue or operating profit (whichever percentage is the higher) from the industries, products and activities listed below:

- a) **The manufacture and distribution of weapons and weapons systems**
- b) **Nuclear military**
- c) **Nuclear power generation**
- d) **Infant formula where the retail or manufacture contravenes international guidelines**
- e) **The extraction, mining, processing and production of carbon emitting fossil fuels**
- f) **Breeding, rearing or trapping of animals for fur and the retailing of fur products**
- g) **Animal testing for cosmetic purposes**
- h) **The manufacture and retailing of alcohol**
- i) **Gambling, including casinos and betting, gaming machine operators and lotteries**
- j) **Production, distribution and retailing of pornography**
- k) **Manufacture and retailing of tobacco-related products**
- l) **Consumer credit companies offering egregiously high interest rate loans and home-collected credit**
- m) **Mining**

Our Castlefield Screening Policy applies to our directly invested B.E.S.T Sustainable Fund range. With regard to the CFP Castlefield B.E.S.T Sustainable Portfolio fund range, any asset held directly will be subject to the policy. In the case of third-party funds, we assess the team and manager's willingness and ability to address ESG and Sustainability concerns. While their screening policies and investment process may differ from our own, we look for funds where we believe these principles are an integral part of the process and where the fund house has a track record of considering sustainable and responsible investment.

## POSITIVE THEMES

While we believe that negative screening plays an important role in ensuring clarity for investors and consistency throughout our investment process, identifying an investment's positive characteristics are also an integral part of how Castlefield approach sustainability. The following themes provide the framework for assessing the positive credentials of any individual investment:

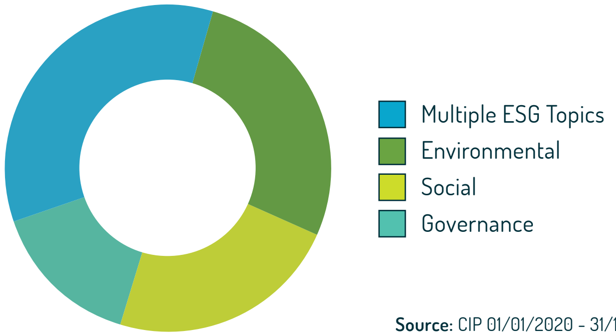
- Environmental Management
- Resource Efficiency
- Employee Ownership & Responsible Business
- Health & Wellbeing
- Education
- Sustainable Infrastructure

# ENGAGEMENT REVIEW: LOOKING BACK AT 2020

Engagement is a focus of our process which we always find to have enormous benefits for our understanding of issues and the 'read-across' impact elsewhere in our investable universe. Over the past few years, the investment team has been collating data on company contact which is starting to provide invaluable insight into the issues for the future. One example of this is the work we did some time ago on the supply chain. Little did we know just how important supply chains would become under the auspices of Covid. We originally looked at the issue from a governance and social perspective.

As part of our effort to improve our reporting to clients, from the beginning of 2020, we put in place a framework to record our engagements in more detail. This has allowed us to breakdown engagements into different focus areas. **Of the 319 engagements with companies in the last 12 months, 201 included discussion of ESG** topics. We are pleased to note the increasing understanding from company management about the need not only to practise good sustainability as part of the corporate strategy, but also report on it. This is of course driven by regulation and legislation, and we are keen to influence input, which is most clearly demonstrated by Castlefield's involvement with the Financial Reporting Council (FRC).

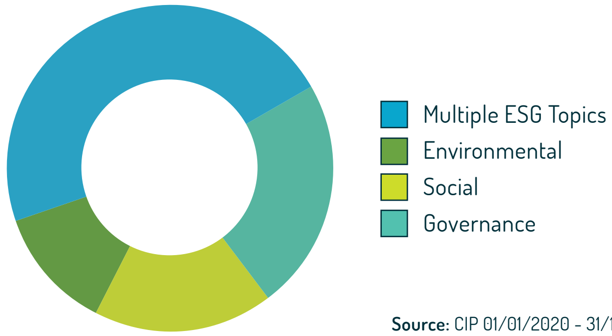
| **Total number of company engagements** | **319** | **%** |
|---|---|---|
| **Engagements with ESG Content** | **201** | **63** |
| Environmental | 54 | 27 |
| Social | 46 | 23 |
| Governance | 30 | 15 |
| Multiple ESG Topics | 71 | 35 |




**Source:** CIP 01/01/2020 - 31/12/2020

Of the 201 engagements with ESG content, 90 were deemed to be substantive, meaning that it took up a significant portion of the call or meeting, or were meetings where we had specific ESG questions or topics that we wanted to put to the company for a response.

| **Substantive Engagements** | **90** | **%** |
|---|---|---|
| Focus: Environmental | 11 | 12 |
| Focus: Social | 16 | 18 |
| Focus: Governance | 21 | 23 |
| Focus: Multiple ESG Topics | 42 | 47 |




**Source:** CIP 01/01/2020 - 31/12/2020

In addition to the more routine engagements captured in the figures above, we have also conducted further engagement projects through the year, such as our Covid-19 surveys and engagement linked to some of the collaborative engagement initiatives to which we are signatories.

| **Other Projects** | |
|---|---|
| Collaborative Engagements | 60 |
| Other Castlefield Projects (incl. the Covid-19 COVID Surveys) | 268 |

Principle 9 Principle 10

# COVID-19 COMPANY SURVEY: WINTER 2020

2020 was a year in which the 'S' of ESG came very much to the fore. Arguably a little neglected in the past in favour of environmental and governance issues, social concerns have gained much greater prominence as we all deal with the pandemic.

Readers might recall that, as the battle against coronavirus began in early spring 2020, we were anxious to find out how the companies in which we invest – at home and across the rest of Europe – were dealing with the crisis. We were especially interested in whether the companies whose shares we own were demonstrating good corporate citizenship, i.e. they were sticking by their commitments to the ESG factors which persuaded us to invest our clients' capital in them in the first place. Were they delivering on their promises?

To learn more, we distributed a survey to the directors or IR teams of around 130 companies, asking them about areas like financial resilience as well as social issues such as furloughing staff, working from home, corporate governance, etc. When we reported the findings of our first survey in the summer of 2020, we promised that we would follow up with another survey towards the end of the year and we have done just that. Our initial hope for the second survey was that the pandemic and lockdowns would be behind us but, as we now know, that isn't the case.

We sent out the second survey to our investee companies in November 2020. As of early January 2021, it is still open but the opportunity to respond will close soon.

As at 4th January 2021, we had received 36 individual responses; 35 respondents told us which company they are from while one respondent opted to remain anonymous. We had 234 individual freeform comments.

## SELECTED HIGHLIGHTS

With the survey still open, it's hard to draw firm conclusions but a couple of highlights so far are:

On 'the Future of Work', some of the emergency operational measures implemented by companies during the pandemic crisis are likely to become permanent. We asked companies; when things do eventually get back to normal, what changes do you think we will see? Respondents are allowed to select all that apply to this question. 100% said there will be "More use of technology e.g. video conferencing, client/customer portals to reduce paperwork"; 82% of companies think there will be "Fewer people in the office on an average day" and 79% of people think there will be less business travel. Food for thought for us as investors.

Our final question is: "From a business point of view, how do you view the next couple of years? Are you optimistic or pessimistic?" Given the challenges we are facing just now, it is heartening to note that 36% of respondents are "Slightly Optimistic" about the future and 58% of businesses are "Very Optimistic" for 2021 and 2022.

We plan to close the survey in mid-January and will report back more fully in our next quarterly report.

Written by
David Gorman

# POSITIVE THEME EXAMPLE HOLDINGS

## VESTAS

### Sustainable Infrastructure

Vestas designs, manufactures, installs and services wind turbines across 82 countries, currently providing over 108GW of power, more than any other manufacturer and representing more than 17% of the global installed base of turbines.[1] The need to increase renewable generation from its current 1/3 (the European average) is clear and wind will be a significant power source for a nation like the UK, where sunshine is not guaranteed.[2] In turn, the cost of wind generation is significantly advantageous when compared to other massive capital spend projects such as nuclear power production and increasing the share of wind energy continues to play a meaningful role in reducing the level of carbon emissions from thermal power generation.

## ALUMASC

### Environmental Mangement

Alumasc is a UK-based supplier of premium building materials, systems and solutions, with a focus on energy and water management. A significant proportion of Alumasc's products are designed to provide effective solutions to increase sustainability within the built environment. One example is the company's Green Roofs System, which can offer engineered living roof systems which contribute to sustainability, biodiversity and the attenuation of storm water. Another product with significant environmental benefits is Alumasc's Derbigum Olivine roofing, which utilises a naturally occurring mineral layer which neutralises the CO$^2$ in rainwater on contact via an irreversible chemical reaction.[3]

## EMIS GROUP

### Health & Wellbeing

EMIS Group is a UK leader in connected healthcare software and systems, providing technology solutions for the NHS and private healthcare industry. While EMIS may not be a household name, some may be familiar with the company's Patient Access app. Making better use of improved technology solutions is a key feature of the NHS Long Term Plan, which seeks to provide more convenient access to services and health information to patients. By providing access to digitised patient records and ensuring that different parts of the National Health Service have access to the most up to date records at the right time, improved patient outcomes can be achieved at the same time as reducing costs.

1. https://www.vestas.com/
2. https://www.economist.com/britain/2020/10/10/boris-johnsons-optimistic-green-energy-plan
3. https://www.alumasc.co.uk/wp-content/uploads/2020/09/Sustainability-Report-2020.pdf

## ALNWICK GARDEN TRUST

Education

The Alnwick Garden Trust was first established in 2001 and is a registered charity which issued a Retail Charity Bond in 2020. Spanning 67 acres, it is one of the North East's top tourist attractions and was originally conceived of by the Duchess of Northumberland. The Trust's charitable objectives focus on social outreach and supporting isolated and underprivileged communities. Some of its programmes, 'Roots and Shoots' and 'Young Gardeners', work with 20 local schools each year to enable children to learn more about growing food and generally enjoying the outdoors. With the North East having the highest number of drugs-related deaths in the country, the Trust also works with schools, youth groups, children in care and other charities to tackle this problem.[4]

## SYMRISE

Employee Ownership & Responsible Business

German-listed Symrise is a global supplier of fragrances, flavourings, ingredients and raw materials. Its clients include perfumers, cosmeticians, food and beverage manufacturers, pharmaceutical companies and nutritional players. Symrise has committed to sustainability in its supply chain, ensuring traceability, using a scorecard approach to how issues such as water use, greenhouse gas emissions and biodiversity subjects are managed. Symrise enhances production being on the ground, providing work and improved living conditions for local communities. Circular production methods become more prevalent as production by-products find valuable use. Symrise intend to halve greenhouse gas emissions by 2025 from 2019 levels and be better than carbon neutral by 2030.[5]

## BLANCCO TECHNOLOGY GROUP

Resource Efficiency

Software company Blancco provide services including data erasure and mobile diagnostics to a large, global customer base. Their data erasure software has been tested, certified and approved by over 15 governing bodies and meet the highest levels of global data privacy requirements.[6] Blancco's software allows organisations to focus on erasing and reusing assets instead of physically destroying them, increasing the lifespan of devices and reducing landfill waste. The company has been awarded the London Stock Exchange's Green Economy Mark, and recently published their first ESG Report which included and estimate that '75.9 million kilograms of electronic equipment was securely sanitised during the year, with a pre-use carbon footprint of 5.6 billion kilograms'.[7]

4. https://www.alnwickgarden.com/
5. https://www.symrise.com/sustainability/index.php?eID=tx_securedownloads&p=16&u=0&g=0&t=1593614495&hash=030c664b095ed154a64638de20de8958079279a9&file=/fileadmin/symrise/Downloads_reports/reports/documents/2020/200310_SYM_Company_Report_2019.pdf
6. https://www.blancco.com/about-us/
7. https://ld7un47f5ww196i744fd5pi1-wpengine.netdna-ssl.com/wp-content/uploads/2020/11/blancco_ESG_report.pdf

# ENGAGEMENT CASE STUDY: SAP

Often when we engage with a company, it's because there's a problem. We nag. We remind companies of their social and environmental obligations. We ask them to do more. But this month's engagement update is different. We've put away our soap boxes and dismounted our high horses to highlight another side of engagement: open, honest and ongoing dialogue.

Over the past three years, we've built up an excellent rapport with the German software firm, SAP. Since initiating our holding, the company has faced some significant governance challenges, yet the company hasn't shied away from talking openly with investors. For example, we were alarmed to read about allegations of corruption in SAP's South Africa operations a couple of years ago.[1] Our investor relations (IR) contact was available to discuss our concerns and was clearly knowledgeable in his response. He conveyed how appalled the chairperson and co-founder, Hasso Plattner, had been at the news and was able to detail the company's investigations into the root cause of corruption.

We've had the opportunity too to provide feedback on CEO pay arrangements. In our view the package is too complicated and too generous and, again, due to open IR channels, we were able to convey this frankly to the company. We take a stringent stance on executive pay which can make us an outlier in the investment industry. The role of IR is to collate differing investor views and convey them to the board. Although our input didn't lead to a change the remuneration package in this instance, our views act as an important counterbalance and challenge the status quo.

In our latest call, we talked about employee wellbeing as all SAP staff are working from home at present. The company has taken extensive measures to address employee loneliness by, for example, arranging online social sessions for isolated staff. We also raised questions about the company's culture and executive, as it has recently reverted back to a single CEO, having introduced a dual-CEO structure only last year.

We were also pleased to receive an update on SAP's environmental programme. The company has already committed to being carbon neutral by 2025 and has a good grasp of how its technology can be used to enable social and environmental change.[2] It has recently launched software to enable companies to calculate the carbon footprint of a product right across its value chain, including the sourcing of raw materials. It also enables buyers to compare the carbon footprint of the same component made in different locations and make greener purchasing decisions.[3]

The IR team at SAP is well-resourced; our contact is both well-informed and generous with his time. Some IR teams prioritise their relationships with larger shareholders; we get the sense that SAP wants to communicate with, and hear the views of, a much more diverse investor base. We note too that our contact is an SRI (socially responsible investment) specialist and can therefore answer our awkward questions on carbon or governance straight away (all too often IR teams need to go and investigate further). The result is that we have developed an excellent understanding of the company, its prospects and the issues that it faces. We have improved insight into the underlying culture and the management team. It's a win-win for us and them.

**Written by**
**Ita McMahon**

1. https://www.reuters.com/article/us-sap-se-safrica-exclusive-idUSKCN2531MX
2. https://news.sap.com/2020/01/sap-joins-ceo-carbon-neutral-challenge/
3. https://news.sap.com/2020/06/launch-sap-carbon-product-carbon-footprint-analytics/

# ENGAGEMENT CASE STUDY: MARLOWE

As part of a project we have discussed in previous stewardship reports, we've taken the opportunity over the course of the year to approach our smaller, AIM-quoted investee companies to engage on the topics of remuneration and diversity.

We've found reporting of directors' remuneration for companies quoted on the AIM market to be far less prescriptive than for larger peers. As investors, we view increased levels of disclosure favourably and support adherence to best practice as defined by the UK Corporate Governance Code where feasible and so we have been highlighting this to companies as well as encouraging a separate advisory resolution on remuneration to be put to shareholders each year at company AGMs. Diversity is a particularly important area for Castlefield as members of the 30% Club and signatories to HM Treasury's Women in Finance Charter. Amongst companies listed on the AIM market, gender diversity levels remain low: the executive director population surveyed in a 2019 KMPG report has female directors accounting for just 7%.[1] We believe boards that genuinely embrace cognitive diversity, by way of appropriate gender and ethnic minority representation as well as via a broad spectrum of skills and experience, are more likely to achieve better outcomes for investors. Fostering inclusive workplaces also plays a key role in increasing innovation, attracting talent, and enhancing reputation.

As part of this wider engagement, we have been discussing these topics in more depth with the management team of Marlowe, a specialist UK service provider. We've been invested in Marlowe within our UK smaller companies fund since 2019, having been attracted by the vital services delivered by the company in reducing risk and assuring regulatory compliance for its customers. These services span several areas: Fire Safety & Security; Water Treatment & Hygiene; Health & Safety Consultancy; and Air Quality & Testing.

Expanding on our discussions around Board composition and diversity first: we explained that we would welcome more independent oversight on the Board and while asking about the prospect of an additional independent NED, we enquired about how diversity is taken into consideration when hiring.

In response, management offered some useful information about the independence criteria for the Board. The team also went on to note that the Board is looking to hire a new NED in 2021 and stated that increasing the diversity of the Board with this hire is a key consideration. Furthermore, on diversity within the wider organisation, they discussed the underlying gender mix and highlighted the notable differences they see presently in certain roles. Overall, they felt the gender balance is reasonable given the dynamics of their industry and were positive about their gender pay gap information.

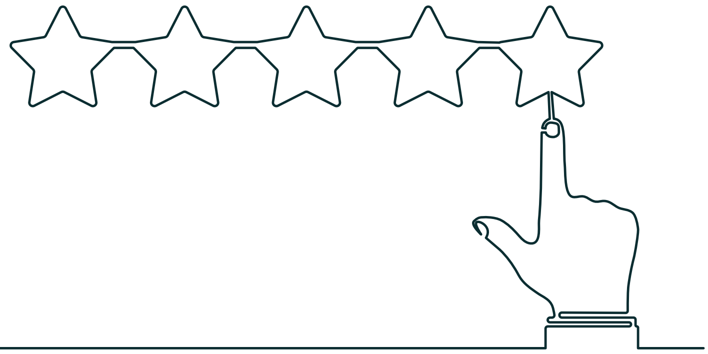
Secondly, on not seeing a separate advisory vote on remuneration, we discussed our preference for this with the team. Although we acknowledged that a separate resolution is not a requirement, we highlighted that, in our experience, we have seen more companies taking this step and that it is encouraged by the QCA Guidelines. Management acknowledged our points but maintained they felt happy with how they currently approach this for now.

Overall, and as ever, it was invaluable to be able to discuss such topics with management. We were pleased to hear of the intention to recruit an additional NED in 2021 and that the team are conscious of the benefits of diversity at Board level. It was also clear that our comments had been given due consideration. Such engagements are a key part of our investment process whilst continuing to build long-term and constructive relationships with companies on behalf of our investors which we believe can help aid the outcome of our engagements.

**Written by**
**David Elton**

1.https://assets.kpmg/content/dam/kpmg/uk/pdf/2019/04/aim-survey.PDF

# COLLABORATIVE ENGAGEMENT: WORKFORCE DISCLOSURE INITIATIVE



Having previously discussed our involvement in a number of collaborative engagements, we're pleased to be able to share some of the results of our efforts supporting the Workforce Disclosure Initiative (WDI). For those not familiar with the initiative, the WDI aims to increase corporate transparency through increased disclosure on workforce issues through an annual survey. We find their data extremely helpful in our assessment of a company's governance and social responsibility. The WDI has an investor coalition consisting of 49 institutions, including Castlefield, which represent $6.5 trillion in assets.[1]

As signatories, we have been engaging with a number of our investee companies over the last few months to encourage them to participate in the survey. Of particular interest to us, and the WDI, is encouraging those companies who would be first-time participants. We sought to use our relationships with company management and investor relations to connect companies with the WDI team and explain the value of their survey to us as investors.

With higher levels of participation in the UK, we were particularly pleased to see two constituents of our CFP B.E.S.T Sustainable European Fund take part in the survey for the first time, having been introduced to the WDI by Castlefield: Italian bank, UniCredit, and German-based flavour and fragrance manufacturer, Symrise.

Collaborative engagement also allows us to partner with other investors to add weight to WDI's request for information. Ahead of WDI's final deadline for submission we signed joint letters with Rathbone Greenbank to send to a small number of target companies which had yet to respond to the WDI or subsequent investor questions about their intention to participate. We believe that it sends a strong message about the value of the WDI's information to investors when we are able to join together to make the request.

Now that the final deadline for submission has passed, we are pleased once again to see an increase in the overall number of company participants and will continue to work with the WDI to encourage companies to increase their disclosure regarding workforce issues. 2020 has been a challenging year for so many and it has only served to increase the attention that the 'S' of ESG (Environment, Social & Governance) is receiving from investors, the media and the public. We hope that this increase pressure will lead to greater transparency about their workforce and supply chains in the future.

1. https://shareaction.org/workforce-disclosure-initiative/

**Written by Rory Hammerson**

**and Amelia Overd**

# COLLABORATIVE ENGAGEMENT: HEALTHY MARKETS INITIATIVE

Partnering with ShareAction, the Healthy Markets Initiative was launched in 2019 with the aim of tackling rising childhood obesity levels by mobilising the investment industry to generate positive change. The initiative works with investors, manufacturers and retailers to support children and families to live healthier lives.

Access to Nutrition Initiative's (ATNI) UK product profile found that nearly 70% of products sold in UK supermarkets are rated as 'unhealthy'.[1] Therefore, it is not a surprise that our shopping baskets tend to be filled with products high in salt, sugar and fat, which contribute to weight gain and obesity.

Childhood obesity is associated with poor physical and mental health, and children from less affluent backgrounds are disproportionately affected. Currently one in three children in the UK are overweight or obese, and children who are obese are five times more likely to be obese as adults.[2] Treating overweight and obesity-related ill health costs the NHS an estimated £6.1bn a year and a total of £27bn to the economy through reduced productivity and growth.[3]

In addition to the mounting economic and societal costs, there are also significant risks for businesses. These include: the greater likelihood of regulation and taxes; potentially losing market share if they fail to adequately respond to the growing demand for affordable healthier options; and reputational damage if they are not perceived by customers,

and other stakeholders to be taking the right approach. Conversely, businesses that shift their strategy towards selling a wider and larger range of healthier products are more likely to realise commercial and reputational benefits.

The current health crisis has drawn further attention to the issue as obesity was found to have an impact on outcomes for those who contracted the virus as well as concerns that lockdowns could increase levels of childhood obesity.[4] The government has since proposed new measures that would limit how supermarkets in England could display and promote unhealthy food and drink in store and online but these measures, subject to consultation, will not come into force until April next year.[5]

Through our involvement with the Healthy Markets Initiative over the last year, we have co-signed letters to seven major food retailers and been part of subsequent calls to discuss the target companies' strategies regarding healthy foods. We have also sponsored a question on nutrition at Morrisons' AGM, which the CEO had to respond to there and then in the meeting.

We are proud to work with the team at the Healthy Markets Initiative to support a cause that we are sure will be important to our clients and look forward to continuing our involvement with them into the coming year and beyond.

1. https://accesstonutrition.org/app/uploads/2020/02/UK-Product-Profile_Full_Report_2019.pdf
2. https://accesstonutrition.org/app/uploads/2020/03/ATNI-UK-Supermarket-Spotlight-report-FINAL.pdf
3.https://shareaction.org/wp-content/uploads/2019/05/FoodHealthBriefing-May-2019.pdf 4.
4.https://www.bbc.co.uk/news/health-53532228
5. https://easo.org/uk-government-new-proposal-for-a-total-ban-of-unhealthy-food-and-beverage-advertising-online/

**Written by
Amelia Overd**

# REAL ESTATE AND CLIMATE CHANGE

## HOW DO OUR INVESTMENTS MEASURE UP?

Since 2015, global improvements in energy efficiency have been falling. This is problematic because of the key role it plays in the transition to a cleaner and more secure energy future. In 2020, efficiency improvements measured by energy intensity were at half the rate of 2018 and 2019 levels and a quarter of the rate required to achieve long term climate and sustainability goals.[1] The property sector in particular is an area where there is room for improvement. The UK has the least energy efficient housing stock in Western Europe and housing is directly responsible for 19% of the UK's emissions.[2] These inefficiencies not only hurt the wallets of homeowners through larger energy bills, they also have negative health connotations (costing the NHS) and productivity declines (especially given prominence of home-working following Covid).[3]

Commercial property would also benefit from energy efficiency upgrades. Even in the current Covid climate with many offices closed, energy usage does not necessarily fall to zero. Offices still require heating and power to run servers and other electrical devices. Finding the balance between heating and adequate ventilation will be a significant challenge when people return to office life. Energy efficiency measures should help to minimise firms costs in the long run and reduce emissions, moving the UK closer to our net zero 2050 commitments. The International Energy Agency believes energy efficiency should be recognised as the 'first fuel' of economic development offering a 'win, win, win' in terms of lower energy bills, lower emissions and improved energy security.[4]

There are numerous international standards that rank properties either entirely on their energy efficiency credentials or incorporate these into their wider assessment criteria.

- **BREEAM (Building Research Establishment Environmental Assessment Method)** is an international independent 3rd party certification of the sustainability performance of buildings and infrastructure projects. Properties are ranked by stars, with 6 being the best. Energy efficiency is one of the ten assessment criteria, which also include categories such as pollution, water and waste, which each have their own individual targets.
- **GRESB (Global Real Estate Sustainability Benchmark)** measures the ESG performance of property companies and real estate funds. Funds are given a rating out of five stars determined by their GRESB score and its position relative to other participants. A Green Star can also be achieved by scoring over 50 in both the Management and Performance metrics. Energy efficiency is one key factor that contributes to the overall GRESB score with continuous improvement required to maintain a rating.
- **EPCs (Energy Performance Certificates)** are an EU-wide independent measurement of household/building energy efficiency performance. They measure the amount of energy used per m² and the level of CO2 emissions and provide recommendations on how to lower these along with the cost saving estimates. Performance is measured on a scale of A-G with A being the best. A rating of E or higher is required by law in order to sell/rent properties and the government is aiming to raise the minimum standard from E to C by 2035.[5]

Here at Castlefield we operate a well-diversified approach to property both across client portfolios and within our funds and have identified a few star performers on this issue. We hold Tritax Big Box REIT in our CFP Castlefield Real Return Fund. It's the UK's leading investment company focused on large-scale logistic properties, such as warehouses.[6] Since 2019, new acquisitions and developments must obtain at least a BREEAM 'Very Good' and an EPC 'A'. In addition, from June 2020, all new developments are designed to meet net zero carbon commitments.[7] The London-centred property owner British Land also performed excellently, achieving a five-star GRESB rating and has been awarded the Green Star for its eleventh consecutive year. British Land's score of 85 was 15 points higher than its peer average.[8] In the most recent figures for Legal and General's UK Property Fund, over 90% of properties in the portfolio achieved an EPC rating of E or above.[9] In addition to this, GRESB awarded the fund 4 stars and the Green Star.[10] Over the coming months we will continue our research into energy efficiency within the sector.

**Written by Barney Timson**

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1. https://www.iea.org/reports/energy-efficiency-2020
2. Greenpeace A Green Recovery How We Get There 2020
3. Ibid
4. Energiesprong 2020' followed by link to the video: https://vimeo.com/451809203
5. https://www.ons.gov.uk/peoplepopulationandcommunity/housing/articlesenergyefficiencyofhousinginenglandandwales/2020-09-23
6. https://www.tritaxbigbox.co.uk
7. https://www.tritaxbigbox.co.uk/about-us/
8. https://www.britishland.com/news-insights/press-releases/british-land-achieves-5-star-gresb-ratings#:~:text=British%20Land%20is%20pleased%20to,for%20the%20eleventh%20consecutive%20year
9. L&G 2020
10. L&G UK Property Fund GRESB Report, 2019.

# NEW HOLDINGS: GREENSLEEVES SECOND ISSUE AND INSPIRATION

## FOCUS ON: GREENSLEEVES RETAIL CHARITY BOND ISSUE

In 2020, we took part in a Retail Charity Bond (RCB) issue for the Greensleeves Homes Trust within our CFP Castlefield B.E.S.T Sustainable Portfolio Growth and Income funds as well as our CFP Castlefield Real Return Fund. We have participated in a previous issue from Greensleeves and were interested to see another opportunity to support the charity's aims.

Greensleeves are an award-winning care provider and charity in the UK, operating more than 20 care homes, and has been supporting older peoples since 1997.[1] Greensleeves currently provide care for over 1,000 residents and are due to open a new residential and dementia home in Berkshire next year. In addition to the high levels of care for residents, staff are paid competitively and fairly, with all those employed receiving above the National Living Wage. Greensleeves also invests significantly in development opportunities and has been successful at keeping staff turnover well below the average for the care sector.[2]

The funds raised from the bond issue will support Greensleeves to deliver on their ambitions of further expanding and modernising the care and support that they offer for the benefit of all their stakeholders, but most importantly their residents, their families and Greensleeves' staff. We believe this is an attractive investment opportunity with a strong positive social impact and we are happy to be able to support the charity in its work to provide the highest levels of care.

## FOCUS ON: INSPIRATION HEALTHCARE

Another new holding within we wanted to highlight is Inspiration Healthcare, which is now held within the CFP Castlefield B.E.S.T Sustainable UK Smaller Companies Fund. Inspiration Healthcare is a specialist medical technology company focusing on the neonatal intensive care market. The company was founded in 2003 as a UK distributor of neonatal intensive care equipment such as incubators and ventilators. By reinvesting in the business, Inspiration has gradually moved up the value chain – first by licensing technology to sell under its own brand worldwide and then, from 2013, by developing its own product range. Most of Inspiration's products are used in the vital first few days of a premature or unwell baby's life, such as in helping to resuscitate a new-born or providing critical support for breathing. Globally, over 15 million babies are born prematurely every year (approximately one in ten live births) and this number is rising.

Inspiration has built a strong competitive position in the UK market, selling to all c.200 neonatal intensive care units. It has also been successfully exporting Inspiration-branded products for several years and there are excellent opportunities to grow in both new and existing territories.

In addition to recent acquisitions, Inspiration has been increasing organic R&D spend on new technologies which have the potential to improve patient outcomes and to generate substantial sales in the medium to long-term. Also of note, and commendable as a good corporate citizen, was the company's involvement in the government's Ventilator Challenge UK consortium, where it operated as an expert adviser and supplier of ventilators for Covid-19 patients in the early stages of the pandemic.

1. https://www.greensleeves.org.uk/about-us/organisation/
2. https://www.greensleeves.org.uk/app/uploads/2020/09/Greensleeves-Care-Social-Impact-Report-2020-digital.pdf

# THE MORAL IMPERATIVE: DIVIDENDS & THE FURLOUGH SCHEME

Until recently, conversations around the level of dividends paid out by investee companies were uncontentious and routine matters of business. However, in light of the impact of coronavirus and the subsequent government support afforded to UK plc, including the furlough scheme, the appropriateness of dividend payments has become much more debatable. Through the year, we have been actively voting against resolutions at company AGMs proposing to pay a dividend to shareholders where the company were also making use of government furlough support, as we were aware of the need for all stakeholders to share in the pain that coronavirus caused in many cases. There were very few examples of this in practice and we have engaged on the topic with our investee companies where we had concerns.

## CASE STUDY: PERSONAL GROUP

Personal Group is an insurance and employee benefits business that we had been invested in for a number of years, but we decided to sell our holding in the company in autumn 2020. This was partly due to concerns about the company's end markets and impact on shorter-term trading in light of coronavirus restrictions halting face-to-face meetings – an important part of the company's sales effort. Moreover, we also had growing concerns around some governance matters relating to the company's approach to the furlough scheme and dividend payments during the pandemic.

In late April 2020, the company issued a statement saying that 22% of staff had been furloughed,[1] yet just a few weeks later management decided to pay out a quarterly dividend, albeit at a reduced rate.[2] To us, it didn't seem appropriate for a company relying on the furlough scheme to pay out dividends. Indeed, we'd seen the negative press that other firms had received for acting in a similar fashion.[3]

We requested a meeting with management and, to their credit, both CEO and CFO made themselves available to discuss the matter. It was useful to understand their perspective: in their view, they had responded to a request from government to use the furlough scheme instead of making redundancies. They saw the business as a conduit through which the government could reach and pay staff who would have otherwise been made redundant. At the time, we'd seen several management teams either topping up the wages of furloughed staff or taking a pay cut to show solidarity with employees receiving 80% of their salary while on furlough. We asked if Personal Group had taken any such action: they confirmed that they had not.

Subsequently, we discussed the matter with our External Advisory Committee. The Committee's main concern was that management had not topped up the salaries of those on the furlough scheme, but instead had paid a dividend to investors. They concluded that although Personal Group had acted legally, they hadn't done the right thing in their eyes.

We held a further call with the CFO at Personal Group to see whether the company's position on the dividend had changed. It had not. In their defence, we understand that management and the board have discussed the sensitivities of dividend payments on a number of occasions and in some detail. Although this offered some reassurance, we remained concerned at the way in which the company seems to be out of step with public sentiment. As such, when combining this with our concerns around a potentially deteriorating trading environment, we decided to exit our holdings of Personal Group.

**Written by**
**Ita McMahon**

1. https://otp.tools.investis.com/clients/uk/personal_group/rns/regulatory-story.aspx?cid=2530&newsid=1386814
2. https://otp.tools.investis.com/clients/uk/personal_group/rns/regulatory-story.aspx?cid=2530&newsid=1390529
3. https://www.thetimes.co.uk/article/anger-as-james-fisher-and-sons-pays-dividend-despite-taking-2m-furlough-cash-x5mx6r8kc

Principle 9 Principle 11 Principle 12

# OTHER DIVESTMENTS ON ESG GROUNDS IN 2020

## KINGSPAN

One advantage of a disciplined investment process is that when things happen that are beyond our control, the process takes over. Process integrity in the investment world means that decision-making is efficient, and any emotional biases can be avoided. As investors, although we shouldn't, we all have favourite stocks. Companies which have made compound returns for our clients, have strong management teams and ambitious strategies which push world-class products through channels to end up delivering excellent environmental impact. Kingspan is an example of a European company which has delivered tremendous returns for shareholders and is very much a bellwether of the sustainable investment movement. The company provides highly energy efficient insulation for buildings and family ownership has been crucial for the drive and energy behind its growth.

When the Grenfell Tower tragedy happened, it wasn't long before investors knew that Kingspan had provided a very small part of the external materials surrounding the much-criticised cladding. The company was open about it and was able to report that the build had not been compliant with safety regulations, but as Kingspan had provided their panels through distributors rather than directly, they were not able to control the construction process. We took this at face value.

In the aftermath of the disaster at Grenfell, a public inquiry was called, and suddenly some unfortunate news items found their way into the mainstream press, including serious allegations of improper conduct by a senior manager and the use of safety certifications that were out-of-date. Again, we engaged with the company, who were willing to provide what answers they could, but were prevented from giving detailed responses while the Inquiry is ongoing.

Having spoken with one of the company officers, we reassessed our position with regard to our process. We felt deeply that the reputational risk of the company had risen over our threshold of comfort and we could not justify its position in the fund, so we very quickly and quietly made the decision to sell Kingspan from the portfolio. Since then the Inquiry has been postponed, and it is uncertain when it will come to an end or the findings reported publicly. Although, in many respects, we like the business and the investment case, our process helps us to take tough decisions. We say we are thoughtful investors. Our process ensures we stick to that.

## HSBC

Earlier this year we also exited our position in HSBC for the CFP Castlefield B.E.S.T Sustainable Income Fund. The holding pre-dated the fund's conversion to its sustainable mandate and we elected to retain it on the grounds of an improving culture that had moved on from legacy regulatory issues, in contrast to UK peers who were wrestling with growing mis-selling claims and the financial provisions stemming from them. In addition, it was one the largest UK companies to become Living Wage Accredited, extending that throughout its supply chain too. We were also impressed when the company had launched an ambitious $100m partnership with leading environmental NGOs to tackle the effects of climate change.[1] At the time, the initiative was seen as "genuinely ground-breaking" and was one of the first corporate initiatives to focus in a significant and serious way on the issue of global warming.[2]

The coronavirus crisis' impact on the banking sector was a concern, but this decision was primarily in response to the emerging situation in Hong Kong as well as our growing concerns about HSBC's fossil fuel financing, rather than as a result of Covid-19. China had moved to strengthen its grip on the region, introducing draconian security laws in contravention of the 50-year handover agreement. In June, a senior member of staff signed a petition and spoke out in support of the new laws, surprising many as the bank has tended to stay away from political statements in the past. The action was widely criticised in the UK.

HSBC's repeated statements in support of the new laws, and by extension the escalating tactics of the Chinese government, gave us significant concerns and, ultimately, we felt it was most appropriate for us to exit the holding.

1. https://www.campaignlive.co.uk/article/hsbc-donates-100m-freeze-global-warming/660738
2. https://www.businessgreen.com/sponsored/2025553/ambitious-corporate-ngo-partnerships-benefit-business-environment-economy

Principle 9 Principle 11

# VOTING ACTIVITY - Q4 2020

As investors, we believe that we have a responsibility to our clients, as well as the companies that we hold, to vote on issues such as executive pay, director nominations and political donations. We aim to vote on all the stocks held in the collective funds we manage. We consider each resolution carefully and often engage with companies where we disagree with their approach. We have an in-house set of voting guidelines that we update annually. The guidelines ensure that we vote consistently across all our fund holdings and are made publicly available on our website, as is our full voting history.

During the quarter, we voted at 26 meetings hosted by our investee companies, with a total of 197 resolutions.

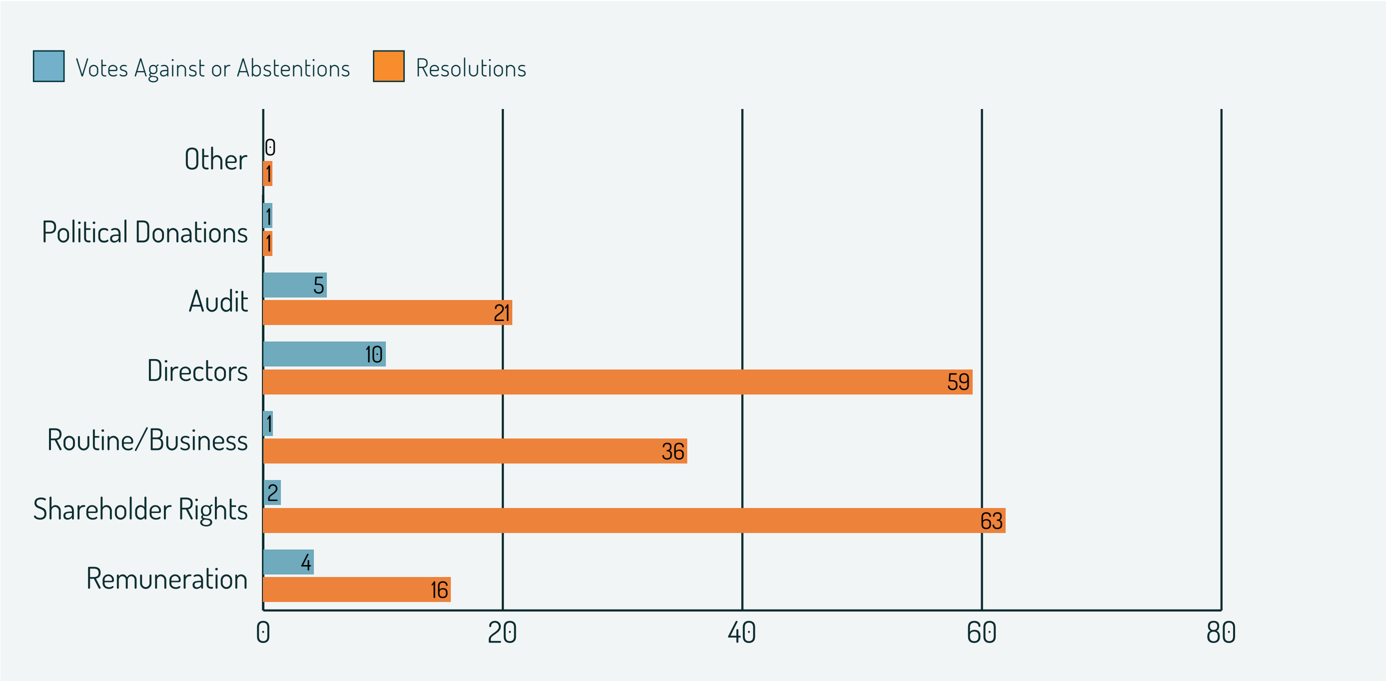
| | | |
|---|---|---|
| Number of resolutions where votes were cast **For** | 174 | 88.3% |
| Number of resolutions where votes were cast **Against** | 15 | 7.6% |
| Number of resolutions where votes were **Abstained** | 8 | 4.1% |

## RESOLUTIONS

| | | |
|---|---|---|
| 1. REMUNERATION | We vote against excessive pay awards and awards that are not attached to sufficiently stretching performance targets. Particularly in light of the impact of coronavirus, we believe it is important that executive pay is reflective of the experiences and outcomes of all stakeholders. |
| 2. DIRECTOR INDEPENDENCE & EFFECTIVENESS | Non-Executive Directors (NEDs) who sit on the boards of listed companies should be independent in order to be effective. The UK Corporate Governance Code sets limits on tenure which we apply across all geographies as a factor to determine independence. We have also long taken the view that directors should not hold a lot of other external positions. This is because, at a time of crisis, we expect directors to have enough additional time to dedicate to the company and the issues that it is facing. |
| 3. SHAREHOLDER RIGHTS | This topic includes votes on issues such as share placings that a company might undertake to raise capital, as well as requests a company might make to repurchase its own shares. These requests have the potential to be detrimental to existing shareholders. One topic which falls under this heading, which we will always vote against, is the request to hold meetings with just 14 days' notice, as we do not believe this is sufficient time for shareholders to prepare to exercise their voting rights. |
| 4. POLITICAL DONATIONS | We do not think it is appropriate for companies to make political donations and consequently will always vote against a resolution seeking permission to do so. |
| 5. THE AUDIT PROCESS | Auditor independence may be compromised if the auditor has been in place for a long time and no tendering process has been undertaken, or if fees paid are for services other than their primary audit function. |
| 6. ROUTINE/BUSINESS: | Items in the category include resolutions that are often uncontentious, such as accepting a company's Financial Report & Accounts for the previous year. It also includes resolutions to approve dividends. |
| 7. OTHER | This category may include certain resolutions proposed by shareholders and votes on topics such as Environmental, Social or Governance (ESG) issues and reporting. |

Principle 12

**Resolutions during the quarter by category and how frequently we voted against or abstained:**



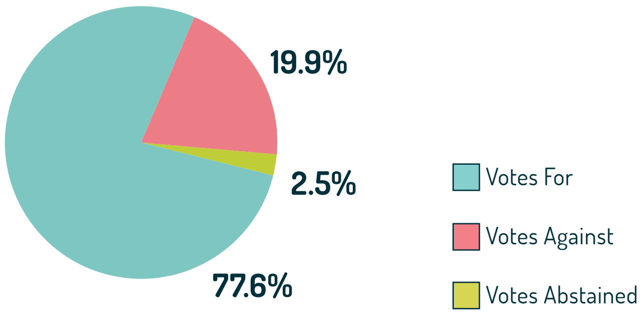

## SHAREHOLDER RESOLUTIONS

Falling into the 'Other' category of our voting breakdown, shareholder resolutions are relatively infrequent in the course of our voting activity. While the majority of resolutions put to shareholder vote are proposed by the Board of the company, there is the opportunity for shareholders to propose a resolution at company AGMs. It differs by country but typically a certain size of shareholding or a minimum number of supportive investors are required to request a shareholder resolution. For example, in the UK an investor must represent no less than 5% of the company's total voting rights or represent a party of at least 100 shareholders with a minimum average holding value per shareholder of £100. It is one of the most public ways investors can engage with companies and investors often partner with NGOs to prompt company action or attract media attention on their proposal.

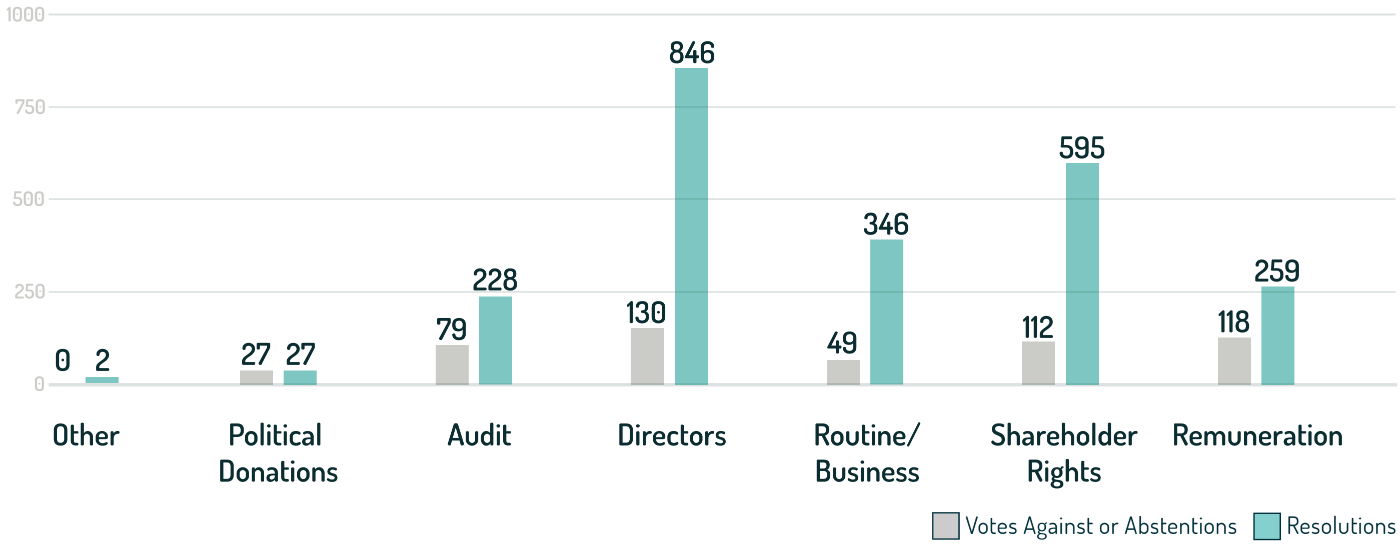
In most cases, the Board opposes the shareholder resolution and so this quarter when we saw a shareholder resolution on the AGM ballot for Danish-listed medical device and service provider, Coloplast, we were pleasantly surprised to see Board support for a shareholder proposal requesting the company to assess the viability of publishing country-by-country tax reporting in line with GRI Standards, which are an internationally recognised sustainability reporting framework.

At Castlefield, we are very supportive of increased tax transparency and see corporate tax avoidance as a systemic societal issue. While there is no suggestion that Coloplast have been avoiding tax, increased transparency from global businesses going beyond the minimum requirements would be a meaningful step towards improving the information available to investors who have concerns about this issue.

# ANNUAL VOTING ACTIVITY




Between the 1st January 2020 and the 31st December 2020, we voted at 179 meeting held by our investee companies. This amounted to 2,309 individual resolutions over the year. The chart below shows these resolutions broken down by category and how frequently we voted against or abstained on each topic.




## REMUNERATION

As demonstrated in the graph above, our category in which we most frequently vote against the recommendations of company management and the Board of Directors is remuneration. We have a detailed voting policy which sets out clear limits for what we deem to be excessive pay, which we believe is uncommon amongst asset managers. One of the reasons we feel confident to challenge companies of the pay packages they award to directors is that as an employee-owned business, we do not encourage a bonus-led culture and therefore do not experience the conflict of interest that is inherent in many larger asset management businesses that may also incentivise their teams using high levels of variable pay.

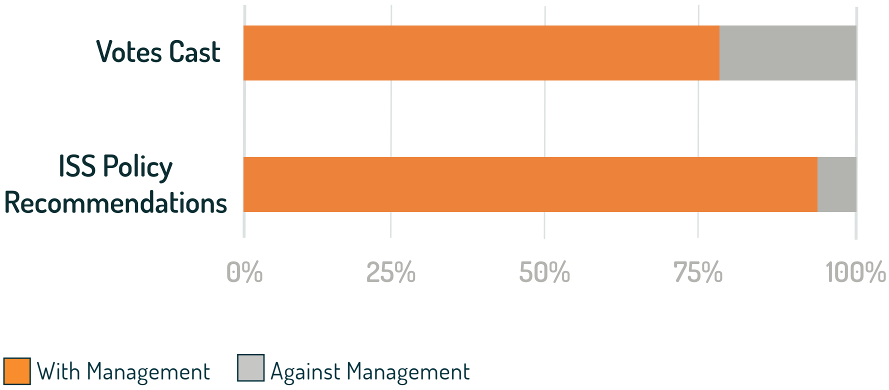
**Among the most common reasons that we will vote against a remuneration report or policy are:**

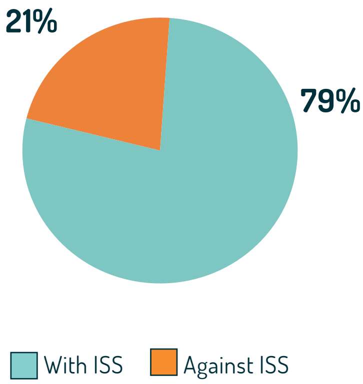
- High Quantum: We set limits on the absolute levels of salary and variable pay that we would consider appropriate.
- Discrepancy with the wider workforce: We often choose to vote against remuneration reports or policies in which executive directors have received pay rises higher than the wider workforce without sufficient justification. We also look closely at pension contributions and see no reason for executives to receive contributions higher than their employees.

Principle 12

# PROXY VOTING SERVICE PROVIDERS

At Castlefield, we use the Institutional Shareholder Services (ISS) platform to implement votes for our fund range and have access to their research and recommendations, but our own policy takes precedence. The charts below demonstrate the difference between ISS voting recommendations, company management recommendations and our own voting history. The votes cast on Castlefield Investment Partners ballots during the reporting period are aligned with management recommendations in 78% of cases, while the ISS Benchmark Policy recommendations are at 95% alignment with management recommendations. As you can see, we vote against management far more frequently than ISS recommend and disagree with ISS's recommendations on 21% of resolutions. Castlefield are active investors and this extends beyond stock selection and into active stewardship processes.




## DIVIDENDS

We've written many times throughout the year on dividends and what would in previous years have been an uncontentious resolution on a ballot has provoked much debate amongst the team in light of the coronavirus crisis and subsequent government support schemes that were extended companies.

With no indication of how long we might be experiencing the effects of the health crisis, we felt that companies which had accessed government support during the year had a duty to ensure that it was not rewarding shareholders at the expense of other stakeholders, such as suppliers and its employees. In additional to feeling that delaying or cancelling dividends was the right thing to do, we also felt that there was a risk of reputational damage, and we did subsequently saw a number of articles drawing attention to a number of companies that chose to continue paying a dividend despite having staff on furlough.

We saw the impact of this stance in our voting most keenly in the second quarter of 2020. We voted against or abstained on close to 40% of requests to pay dividends. We believed that it was important to make our stance on the topic very clear to management. It seemed that management teams for the most part were of a similar view and a number of proposed dividends were withdrawn at the AGM itself.

The challenge we, and indeed company management teams themselves, are facing is now is deciding when it is appropriate to reinstate dividends. While the pandemic is by no means behind us, many companies have coped and been able to adapt better than expected to the situation, and the vast majority of our investee companies have not needed to continue use of the furlough scheme. Many have even been able to repay the government funds received as they had not been impacted as harshly as initially feared.

We discussed the topic most recently at our Stewardship Committee Meeting and are looking to formalise a set of criteria for voting on this topic with our External Advisory Committee at their meeting in February. These guidelines will take into account whether management also took a pay cut or topped up the salaries of those staff on furlough, whether the dividend is proposed at a reduced level, and how sustainable we feel recent trading has been.

Our full voting history and our Corporate Governance & Voting Guidelines are available on the Castlefield website.

# AGM DISRUPTION

As we wrap up 2020, we can see that the coronavirus pandemic has changed the way AGMs have been taking place, with more and more companies being forced to move to hybrid and virtual meetings. We do not yet know what the situation will be for the 2021 AGM season, but we expect that many of these new AGM features will still be incorporated going forward, with companies having to allow for remote attendance and electronic methods of participation.

These meetings are about much more than voting for many shareholders and changes need to be closely monitored to ensure shareholder rights are maintained. In October, the Financial Reporting Council (FRC) released the results of a review of the AGMs held during the first half of 2020 for FTSE350 companies to assess whether the variety of approaches taken were in the best interests of shareholders. With a wide range of approaches taken by companies, establishing best practice has been an important step in order to provide guidance for companies going forward to ensure that smaller shareholders in particular are not disadvantaged by the changes being incorporated to company meetings.

There are many clear benefits of enabling remote attendance and it could increase accessibility and engagement opportunities for shareholders who may have been previously unable to attend in person. Being able to submit questions in advance has benefits for both shareholders and companies, as the questions can be considered in more detail before an answer. It may also provide benefits for the company hosting the meeting through reducing the costs of venue hire, catering and travel expenses.

However, it is also vital that companies provide clear communication to allow for the greatest levels of participation, maintain the voting rights of shareholders and provide the opportunity to ask questions during the meeting. If questions are limited to those only submitted in advance, there is a risk that they could be seen as filtered to be more favourable to the company. There are also risks that those less technologically versed may be hindered from participating. Finding the right balance is the challenge that companies have been faced with in very difficult circumstances.

The review grouped different approaches into three broad categories: 'closed' meetings, meetings with some shareholder engagement, and meetings with more shareholder engagement. The FRC found that just over 80% of companies in the FTSE 350 opted to hold closed meeting which required voting in advance, and the majority of these companies did make arrangements for shareholder Q&A. Disappointingly, they also noted that 30 of the 202 AGMs analysed did not appear to have provided any opportunity for shareholder Q&A, although it is worth noting that many of these meetings took place in March and April and therefore had less time to prepare.[1]

Recommendations for the year ahead recognise that no two companies are the same, but strongly encourage communication with shareholders ahead of time about the structure of the meeting and clear information about how to ask questions in advance and ideally in real time as well.

This is a topic we will be conscious of as voting season approaches and will be looking to ensure that companies are making every effort to avoid disenfranchising any shareholders. We expect technological advances to become the 'new normal' for AGMs and feel that transparency is incredibly important as these changes are rolled out.

1. https://www.frc.org.uk/news/october-2020/covid-19-disruption-forces-uk-companies-to-embrace

**Written by Amelia Overd**

# CASTLEFIELD'S EXTERNAL ADVISORY COMMITTEE

Working with our clients is an important part of our process at Castlefield. We welcome a collaborative approach and want to ensure that our values continue to be aligned with those of the clients that we represent. With that in mind, we set up our External Advisory Committee in 2018, which is designed to provide impartial oversight on how we incorporate environmental, social and governance issues (ESG) into our investment decision-making within our B.E.S.T Sustainable fund range. The committee also oversees our voting policy and the engagement that we carry out with companies on ESG issues.

We hope that having the Committee in place sends a strong signal to our clients that we're not just paying lip-service to thoughtful investing, we're willing to have external experts and clients examine our approach and offer guidance.

In order to provide transparency, we publish a summary of the minutes of each meeting on our website to allow investors to see the content of the discussions and the Committee's recommendations.

The Committee's input has been valuable in shaping our thinking on initiatives such as the UN Sustainable Development Goals and the Access to Medicines Index, as well as ESG topics like single use plastics and data security. In addition, we have sought their views on holdings where we've had concerns about ESG issues, which has helped to inform our thinking.

We are also delighted to announce that Dr Ilma Nur Chowdhury will be joining Castlefield's External Advisory Committee in February 2021. Dr Chowdhury is an Assistant Professor in Marketing at Alliance Manchester Business School (AMBS) and a Chartered Marketer. She is the Associate Head for Social Responsibility and Engagement in the Management Sciences and Marketing Division.

Ilma conducts research on bottom of the pyramid markets, customer vulnerability, social innovation and sustainability in supply chains, and is passionate about research on the reduction of inequalities, alleviation of poverty and enhancement of living standards through services marketing and management practices. Dr Chowdhury's expertise on social and supply chain issues will complement the existing mix of clients and ESG specialists on the committee. We're really excited about her appointment and we look forward to working with her.

## COMMITTEE MEMBERS

### MATTHEW AYRES
Ethical Screening

### KEVIN DAVIES
Evangelical Fellowship of Congregational Churches

### REBECCA O'CONNOR
Personal Finance Specialist at Royal London and founder of Good-with-money.com

### GEOFF SIDES
United Reformed Church North West Synod

### DR ILMA NUR CHOWDHURY
Assistant Professor in Marketing at Alliance Manchester Business School

"In an increasingly complex, financial, environmental and ethical world it is encouraging to see an investment company taking its responsibilities seriously. Castlefield encourages and enables the External Advisory Committee to grapple with often conflicting interests and provide considered guidance in relation to a wide range of investment scenarios."

**Kevin Davies, External Advisory Committee Chairperson**

Principle 2 Principle 5 Principle 7

# ABOUT CASTLEFIELD: THE PEOPLE BEHIND THE FUND RANGE

**Castlefield is a family of businesses offering investment and wealth management services.**

## OUR CLIENTS

Managing investments for charities has always been a major focus for us and we have over 60 charity clients. The portfolios of our individual clients range from c. £250,000 to over £10m, while most of our charity accounts lie in the £1m to £5m range. Our clients are investors who wish to invest their money for a good return, but without compromising their personal or corporate beliefs. We know that Castlefield is not a household name, but we are happy to be known by the clients we act for and the role we perform for each of them. Much of our new business comes from personal recommendation.

## OUR STRUCTURE

Our structure sets us apart from many of our peers:

- We're employee-owned: every individual owns shares in the business – through a direct holding or collectively via our Employee Share Ownership Trust. Most employees participate in our Share Incentive Plan (SIP), which means that they hold shares in the business.
- We're part-owned by a charity: Burden's Charitable Foundation has a 27% stake in the Castlefield business.

## OUR PURPOSE

### "We gather assets to do good"

## OUR VISION

To act as a trusted investment manager and adviser to people and organisations who seek to make a world of difference. We do this by acting for charities, individuals and other employee-owned businesses who seek an outcome where business is recognised within the context of its environmental, ecological and social impacts.

## OUR CULTURE

We're distinct in other ways too. We all know the caricatures of the investment industry: rest assured that things are different at Castlefield.

- Our hiring process assesses candidates for their attitude to sustainability and ethics.
- When we're looking at personal performance, we appraise individuals on how well they uphold our culture and values. We know that these attributes are critical to our long-term success.
- We don't pay outlandish bonuses: everyone receives the same employee ownership dividend, irrespective of their seniority.
- The company has a good gender balance at all levels of the organisation: 47% of line managers are female.


Principle 1 Principle 2

## ENVIRONMENT

We're an office-based business so we don't have a huge environmental impact, at least not directly. Pre-Covid, we'd begun addressing our commuting and business travel emissions by offering discounted passes on the Manchester Metrolink tram and by introducing a salary sacrifice scheme for low emission vehicles. We also use suppliers – for paper, ink, pre-prepared lunches and so on – that are eco-friendly. We are accredited by the Carbon Literacy Project as a Carbon Literate Organisation (Silver Level).

Indirectly, our investments have a much larger environmental footprint. We do our utmost to minimise this in a number of ways:

- Avoiding all direct investment in fossil fuels.
- Assessing the environmental impact of any prospective investment.
- Seeking out investments in sustainable infrastructure, resource efficiency and environmental management.
- Engaging companies on environmental issues to encourage them to do more.

## OUR PEOPLE

We're a team of c. 60 people, based mainly in our Manchester office.

## GENDER BALANCE

We have a good gender balance across the organisation. We're a signatory to the Women in Finance Charter, a scheme co-ordinated by HM Treasury to increase female representation at senior levels of the financial services industry. Our target is to ensure that 50% of our line managers are women and we have already achieved this. We are focusing on the line management function given the important role managers play in recruiting and retaining people in the business. We know that flexible working is important to many of our co-owners, particularly parents and carers, and before Covid-19 26% of co-owners were working flexibly.

## TRAINING AND DEVELOPMENT

We place a strong emphasis on training and development. Within the financial services industry, individuals with significant responsibilities are required to complete 35 hours of Continuing Professional Development (CPD) every year. At Castlefield, we go further and ensure that every co-owner undertakes 35 hours of CPD training per annum.

## THE CASTLEFIELD ACADEMY

Over the past year we've run 12 in-house training programmes, including sessions on unconscious bias and mental health awareness.

## LIVING WAGE

We're an accredited Living Wage employer and have also ensured that our contracted office cleaners are also paid the living wage.

## COVID-19

By the time lockdown started at the end of March, most of our co-owners were already working from home. We had begun the process some weeks prior, by instigating a rota to reduce the number of people in the office. We're proud of how well our co-owners have adapted to the changes. Our management team has been keen to emphasise the importance of mental wellbeing: individuals have access to an independent assistance programme for help with difficulties in their personal lives. Where necessary, line managers have also helped co-owners find working patterns to suit their lives at this precarious time. Given that remote working is running smoothly, we will unwind slowly from lockdown: the safety of our co-owners remains of paramount importance.

> **Castlefield has been listed as one of the Best Financial Advisors to work for in 2020 by Professional Advisor**

# MEETING OUR REQUIREMENTS UNDER THE STEWARDSHIP CODE

In order to meet the new reporting requirements of the Stewardship Code, we will be providing more information about our behind-the-scenes processes. We hope this will improve transparency and allow our clients to understand why we conduct our stewardship and engagement the way we do.

## GOVERNANCE

At Castlefield, our stewardship and engagement are governed by an internal Stewardship Committee and our External Advisory Committee.

| INTERNAL STEWARDSHIP COMMITTEE | EXTERNAL ADVISORY COMMITTEE |
|---|---|
| An internal committee that oversees and implements Castlefield's stewardship activities | An external group that provides advice to Castlefield on stewardship issues |
| Members of the investment team sit on the Committee, but meetings are open to, and attended by, all members of the Castlefield investment management team | A five-person committee made up of clients and experts in ESG issues |
| Meets quarterly | Meets twice a year |
| ▪ To set and implement our stewardship strategy<br>▪ To make the Committee aware of emerging stewardship issues<br>▪ To define, re-evaluate and approve policies that the Committee has responsibility for, most notably our voting guidelines which are updated annually<br>▪ To evaluate and approve membership of any organisations or initiatives that support the company's stewardship efforts. | ▪ Review Castlefield's current stewardship activity for all CIP funds<br>▪ Act as a sounding board on current or prospective holdings where the investment team has ESG concerns<br>▪ Consider investment themes presented by Castlefield co-owners to the Committee<br>▪ Advise on changes to the CIP voting guidelines<br>▪ Bring emerging ESG issues to CIP's attention. |

## INTERNAL STEWARDSHIP COMMITTEE

Our Stewardship Committee meetings, attended by all members of the investment management team, are held quarterly to review our policies and processes as well as to discuss emerging ESG issues.

We believe that regular Stewardship Committee meetings, in addition to the oversight of our External Advisory Committee, provide an effective structure to assess the quality of our stewardship and engagement activities. We have a team-based culture and these meetings are an opportunity for any of the team, regardless of seniority to propose a topic for the agenda. In the last twelve months, and in light of the new Stewardship Code, we have been increasing discussing how we can monitor 'outcomes' from our stewardship and engagement activities. This is an area that we will be looking to develop going forward and hope to expand upon in our next annual stewardship report. These meetings are also where we formally review the input of any service providers we might use, with an annual process to review effectiveness and quality of service.

Our most recent Stewardship Committee meeting incorporated discussion of our approach to climate change in our investment process and our annual update to our Corporate Governance and Voting Guidelines. These changes are due to be discussed with the External Advisory Committee at their next meeting in February for review.

## EXTERNAL ADVISORY COMMITTEE

The External Advisory Committee has oversight of key policy documents, such as our Screening Policy and Corporate Governance and Voting Guidelines, and our discussions with them help to set our future engagement priorities. Both the Committee members and investment team can table topics for discussion, and this could cover emerging ESG issues or concerns around a particular holding. While the Committee does not have formal veto powers due to regulatory reasons, their guidance is taken extremely seriously.

## SERVICE PROVIDERS

We have a completely integrated team working on all aspects of our stewardship and engagement activities. All of our votes are discussed and agreed with the relevant fund managers, and we review our policy ahead of each new voting season to ensure that it remains fit for purpose and incorporates any emerging concerns. Our ESG research is undertaken in house, with support from a third-party provider, Ethical Screening. Ethical Screening is not a ratings agency and we have previously worked with them where we have information from our engagements that may change how a company is classified.

The other significant service provider which aids our stewardship efforts is ISS. Having access to ISS research and their proxy voting platform enables our voting process and increases our ability to report to clients and maintain a clear audit trail. Our contract with ISS is reviewed annually by the Stewardship Committee and we have engaged with our client relationship manager at ISS where we believe services could be improved, and have also conducted calls with members of their research team to discuss emerging corporate governance factors.

## OUR ENGAGEMENT PRIORITIES

When considering environmental, social and governance issues (ESG), we aim to engage companies:

- On significant issues arising from the ESG research that the investment team carries out on all prospective investee companies;
- On issues arising from our voting activity, particularly where we intend to vote against the board;
- On complex, thematic issues such as climate change, cyber security, human rights and water scarcity, that may pose a threat to our investments over the medium to long-term;
- In response to negative media coverage or alerts from our research providers on an investee company;
- In industry collaborations.

We also engage to provide positive feedback where, for example, a company has improved its management or disclosure of ESG risks or has undertaken a sector-leading approach.

While many engagements can be deemed reactive, such as those in response to AGM resolutions, we also seek to conduct a number of more thematically-led engagements. The priorities for these activities are determined through meetings of the Stewardship Committee and the External Advisory Committee, with any member of the investment team able to propose topics for engagement.

## OUR ESCALATION PROCESS

If we have any specific concerns about aspects of a company's strategy, performance or ESG impact, we'll start by emailing our questions to the investor relations contact at the company. We'll usually ask for a meeting to discuss the matter in detail. Alternatively, we may raise the issue as part of our regular, ongoing contact we have with company management or investor relations teams.

Where we do not receive a satisfactory response, we'll escalate. In the first instance this means requesting a meeting with management or with a relevant non-executive director. We also have the option of collaborating with other investors or raising the matter at the company's AGM.

On governance matters, our escalation process regularly involves us voting against AGM resolutions. This is most often the case on executive pay. So, if our conversations with the board have not provided sufficiently compelling reasons to support a new pay policy, for example, then we will vote against it at the AGM.

In rare instances, our escalation process results in the decision to sell our interest in the company.

# MEETING OUR REQUIREMENTS UNDER THE STEWARDSHIP CODE (continued)

## IMPACT MEASUREMENT

We measure the impact of our engagement by assessing a company's willingness to discuss and take on board the issues that we have raised. As a basic starting point, we are successful in instigating a dialogue with most of the companies we contact. Our aim is to build long-term, constructive relationships with the companies that we invest in, where we can ask for updates on ESG issues on a regular basis.

However, not all engagement will generate immediate or direct improvements: we do not regard this as a failed engagement but a reason to continue to press the company to take our concerns onboard.

We do not select engagements on the likelihood of achieving an immediate, positive outcome but on the materiality to the company. There may be many reasons why a company is unwilling or unable to take action in the short term, hence the importance of sustained pressure over time from investors and other stakeholders.

## MARKET WIDE AND SYSTEMATIC RISKS

In order to help promote a well-functioning financial system, Castlefield is always aware of, and seeks to respond to, both market-wide and internal risks.

In early 2019, we brought in some external expertise with a background in risk management in retail banking to help establish a standalone risk committee within the firm. The committee convenes three times a year; the meetings are attended by our Managing Partner and several members of our firm-wide Executive Committee. The Committee considers emerging threats, such as cybersecurity during lockdown, as well as more day-to-day risks. Although we can never eliminate risk, the Risk Committee and the reporting disciplines it has embedded have been very effective in reducing Castlefield's exposure to risks.

We also work hard in collaboration with other investors and stakeholders to try to promote continued improvement in the functioning of financial markets. For instance, one of our partners has been a member of the FRC Advisory Group which examined the Future of Corporate Reporting. The aim of this project was to make recommendations for improvements to current regulation and practice in annual and other corporate reports and to make these reports better suited for the 21st century.

This same senior employee has been an active member of the FRC's Investor Advisory Group for over two years. This Group has a wide remit, advising the FRC on a range of issues, such as the drafting of the new Stewardship Code and, before that, the UK Corporate Governance Code. The Group also acts as a conduit between the regulator and the wider market to help improve the flow of information and ideas throughout our industry.

Whilst it is difficult to quantify the impact of our activity in this area, we know that we are the only asset manager with assets under £1bn with a place in the Advisory Group and so are able to provide the perspective of a smaller asset manager on policy developments.

## HOW OUR CLIENTS INFORM OUR APPROACH

At Castlefield our client base is predominantly retail investors and consequently the vast majority of our reporting efforts are designed to speak to the individual investor. We welcome feedback on our Stewardship Reports and our investment approach and Screening Policy have been directly informed by our discretionary client base. Our approach is also overseen by our External Advisory Committee, which contains representatives from two of our long-standing charity clients.

Previously input has involved a client-wide survey and, more recently, we have used client questionnaires – part of our onboarding process for clients with directly invested portfolios – to assess the most common client concerns and interests.

## REPORTING TO CLIENTS

We aim to report to clients on our stewardship and engagement activities on a regular basis and publish quarterly stewardship reports which covers a number of examples of our dialogues with companies and issuers and involvement with collaborative initiatives as well as a summary of our voting activity.

We have also initiated a monthly engagement blog during the year following feedback from financial advisers that this was something clients would be interested to see.

Principle 4 Principle 5 Principle 6

## ASSET BREAKDOWN

The majority of the assets within our funds are direct equities, in the UK and more recently Europe, with the launch of our CFP Castlefield B.E.S.T Sustainable European Fund, and it is equities where we have focused the majority of our efforts.

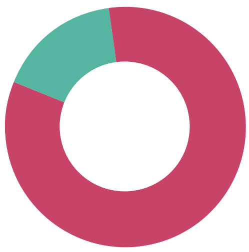
Within fixed income, our direct exposure to bonds is limited and contains a large weight to Retail Charity Bonds. Engagement with bond issuers tend to be more limited, with more focus taking place at the point of investment to ensure that issuers' financial and ESG credentials are in keeping with our policies and processes. Our exposure to structured products allows less opportunity for engagement but we do conduct a B.E.S.T analysis on any issuer and have actively sought to incorporate structured products where the individual issuer has a positive impact programme or an ESG reference index. All of our bond and structured product holdings have a UK listing.

Outside of managing our Castlefield fund range, we also act as discretionary managers for a segregated client accounts. Our typical investment horizon is long-term, which we define as being at least five years in length although preferably more. We believe this is appropriate for our clients for several reasons, such as short-term investment horizons implying greater turnover of investments, which leads to higher dealing costs that reduce the overall return the clients receive. However, there are practical reasons for adopting a long-term approach, as it aligns us with what we expect from company management. We believe that a sustainable business strategy requires a long-term perspective to devise and execute, and as part-owners of each of the businesses we invest in, our expectation at the outset is to buy into the delivery of a strategy rather than to exit after only a short horizon. We have rights and responsibilities as part-owners of the companies we invest in and they can only properly be discharged when possessing a long-term horizon.

## ASSET AND GEOGRAPHIC BREAKDOWN WITHIN THE CASTLEFIELD FUND RANGE

### Asset Type Breakdown


### Equities: Geographic Breakdown




As at 31/12/2020

### As at 31/12/2020

| | |
|---|---|
| **Total Discretionary Assets under Management** | 296.2 |
| **Castlefield Funds** | 150.7 |
| **Segregated Client Accounts (excluding holdings in Castlefield funds)** | 145.5 |

## CONFLICTS

Our Conflicts of Interest policy is made available on our website. We do not believe that there are any differences in as far as it is applied to our stewardship responsibilities. Our collegiate approach means that potential conflicts are mitigated as no one co-owner has overall responsibility for any part of our stewardship and engagement processes. All voting proposals are circulated to the whole team and we hold weekly ESG meetings to discuss any new and upcoming engagements.

While we typically have few conflicts directly relevant to stewardship, one conflict that we have managed during the past year has been one of our fund managers taking on a non-executive director position for an investee company. In practice, this meant that that team member was excluded from any discussions we held about that stock related to either investment decisions or stewardship and engagement activities. Any engagement took place through the appropriate channels designated by the company.

https://www.castlefield.com/conflicts-of-interest-policy/

# MEET THE TEAM

## Alison Newall
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Associate, Investment Management

## Amelia Overd
**MA (Hons), IMC, ACSI**
Senior Executive, Investment Management

## David Gorman
**MA (Hons), MBA, Chartered MCSI**
Partner, Investment Management

## Ita McMahon
**BA (Hons), MA, IMC**
Associate, Investment Management

## Mike Heron
**Chartered MCSI**
Executive, Investment Management

## Rory Hammerson
**MA (Hons), CEFA**
Partner, Investment Management

## Daniel Lonsdale
**BSC (Hons), IMC, ACSI**
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## David Elton
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## John Eckersley
**BA (Hons), MBA, Chartered FCSI, Chartered Wealth Manager**
Managing Partner

## Mark Elliott
**Mchem (Hons), Chartered MCSI, CFA**
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## Richard Slattery-Vickers
**BA (Hons), ACSI**
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## Simon Holman
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WE GATHER
ASSETS TO
DO GOOD.

THE THOUGHTFUL INVESTOR

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