CASTLEFIELD ANNUAL STEWARDSHIP REPORT 2021

CASTLEFIELD

THE THOUGHTFUL INVESTOR

John Eckersley
Managing Partner

"For 20 years Castlefield has adopted a unique, thoughtful approach to looking after money, reflecting in turn the shared concerns and aspirations of private individuals, their existing financial advisers and the charities they've founded or helped to run. We remain committed to achieving sustainable growth by focusing on the core values of respect, responsibility, independence and innovation; all underpinned by the stability which naturally results from our all-employee share ownership."

Principle 1

PRINCIPLES OF THE CODE & TAGS

This report covers the year 1st January 2021 through 31st December 2021.

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 or go to this address: www.frc.org.uk/investors/uk-stewardship-code

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FOREWORD

This time last year, the nascent vaccine roll-out provided a light at the end of the covid tunnel while we highlighted the desire to use our Stewardship activities to help tackle the regressing impacts of the pandemic where possible. We produced the last version of this report as our submission for the first wave of reporting under the new UK Stewardship Code and were delighted to hear in September 2021 that we were one of only 125 firms to be approved as signatories of the new Code, testament to the skill and work of the team all year round in generating the material we report to the FRC.

So, to this year's version, where we again set out case studies and thought pieces and provide transparency over all our voting. It's a substantial piece of work yet readily consumable in bite-sized sections, while clicking on the tags on page 3 will take you straight to the relevant section.

There are some new elements this year which I'd like to draw specific attention to, namely Impact Reporting and our Positive Themes, each of which is designed to give our clients and investors a better feel for where their assets are invested. We're clear in our minds (and have written about it previously) that our impact reporting is relative in nature and not something we dress up, or greenwash, as tangible real-world impact. Nevertheless, we believe it's worthwhile demonstrating that client assets are directed to investing in companies who typically perform better on environmental and social grounds than the average. Through our long-term relationships with them as investors, we aim to encourage them to improve their approach to business and we believe material benefits will ripple out as a result.

On positive themes, we've long believed that simply excluding companies or sectors from investments isn't enough and that a blended approach, which also incorporates the desire to support those companies offering solutions to the pressing challenges of environment and society, is preferable. Led by Amelia, we've identified and defined a series of positive themes and then assessed each of the companies we invest in against them. The results are outlined in this report and this will be a regular feature of our work from now on.

Last year, I noted here our keen anticipation of Dr Ilma Nur Chowdhury of the Alliance Manchester Business School joining our External Advisory Committee. This time round, we're equally delighted that the committee is being bolstered further by the addition of Lisa Stonestreet, representing the EIRIS Foundation. Last year, we tendered for the Foundation's new investment mandate and were delighted to be chosen as joint winners; as part of our pitch, if chosen, we invited the Foundation to nominate a representative so that its knowledge and expertise could be shared and have the widest possible influence. We look forward to Lisa joining the Committee.

Also included is some detail on our approach to Net Zero. Our review of COP26 was published in our Q3 2021 Stewardship Report and while it's encouraging to see private capital mobilising more actively against climate change, there's still a long way to go. It's why we intend to ramp up our engagement with companies in this area; frankly, there's no excuse now for any management team worth its salt not to be considering and outlining the risks and consequences of climate change on its business models.

We always say that change is achieved through both individual and collective endeavour, please get in touch if you'd like to work with us to achieve this.

Written by
Simon Holman

RESPONSIBLE AND SUSTAINABLE INVESTMENT AT CASTLEFIELD

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 framework (right) - to assess the merits of competing investment choices. It's used across and within asset classes and provides a consistent outline for assessing all investment opportunities at Castlefield. It's not a filter or screen, but a responsible investment framework which incorporates four main criteria to assess both financial and non-financial attributes that we think can affect long-term investor returns.

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 analysis using the B.E.S.T framework and clients also have the ability to incorporate their own values by way of an ethical questionnaire.

Our screening policy was developed with the views of our clients 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 frequent client concerns and interests. We also have client representation on our External Advisory Committee.

THE B.E.S.T FRAMEWORK

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?

IDEA FORMATION

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

SCREENING POLICY

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

B.E.S.T ANALYSIS

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

TEAM REVIEW

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

ONGOING MONITORING

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

DISCRETIONARY CLIENT ACCOUNTS

In addition to our fund range, we manage discretionary accounts for individuals, charities and businesses. We offer three main services for clients, our Managed Portfolio Service (MPS), our Premium Portfolio Service (PPS) and our AIM Premium Portfolio Service. The MPS provides a collectives-based service, while both of the 'Premium Portfolio' options allow for clients to set their own ethical criteria for investments in UK-listed shares.

Our Castlefield Screening Policy applies to our directly invested B.E.S.T Sustainable fund range. For segregated client accounts, any asset held directly will also be subject to our internal Screening Policy and ESG integration within our Premium and AIM Portfolio Services has been central to our approach for many years. These accounts may also contain exposure to our single-strategy B.E.S.T. Sustainable funds, to which the Screening Policy applies, and our Real Return Fund, about which there is further detail below.

EXTERNAL FUND SELECTION

Third-party funds are assessed in terms of the team or 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 opportunities. Forming an effective and ongoing dialogue with the respective managers is a key consideration when adding third-party funds to our portfolio service. Whilst there may be some small deviations from our own Screening Policy criteria, we believe that the third-party funds we choose to invest in on behalf of our clients align well with the spirit and intention of our approach.

CASTLEFIELD REAL RETURN FUND

The Castlefield Real Return Fund is the only fund which is not a part of our B.E.S.T Sustainable range. The fund aims to deliver returns to investors in excess of UK inflation over, at least, a rolling three-year time horizon. It has been designed to provide returns broadly consistent with those from a pool of 'real assets' but with lower volatility, more in line with that historically observed in the fixed income sector.

While the fund is not explicitly labelled as an ESG fund, it does benefit from some exclusionary factors in the criteria for investment, such as tobacco and armaments companies, and all investment decisions do incorporate ESG risk by way of the B.E.S.T framework which is used across all asset classes. The fund also has a material and growing exposure to sustainability-focused investments such as renewable energy infrastructure.

In order to meet its objective, the fund contains an allocation to structured products, which are investment tools designed for retail and institutional investors alike that have numerous potential benefits, including capital protection, risk/return profile optimisation and diversification.

While equity markets, and to some extent bond markets, have established a framework for sustainable investing, incorporating this into structured products has been slow. Structured notes consist of two separate elements, the strategy itself and the underlying bond-wrapper. We have been able to participate in a number of ESG-linked strategies and sustainability-linked issuance schemes but do not feel that the market is sufficiently developed to commit to using these programmes exclusively. Therefore, while we believe that a significant proportion of the fund's assets do contribute towards positive sustainability trends, we do not feel comfortable badging it as a 'B.E.S.T Sustainable' fund at this point in time.

Principle 1 **1** Principle 7 **7**

SCREENING POLICY

In the case of our B.E.S.T Sustainable fund range and for our clients who hold direct equity holdings, the B.E.S.T Framework is supplemented by our B.E.S.T Sustainable Screening Policy. This 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 (right).

Our Castlefield Screening Policy applies to our directly invested B.E.S.T Sustainable Fund range. With regard to the 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 and investment teams where we believe these principles are an integral part of the process and where the fund house has a strong and credible track record of considering sustainable and responsible investment.

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 products

h) The manufacture and retailing of alcohol

i) Gambling, including casinos and betting, gaming machines operators and lotteries

j) Production, distribution and retailing of pornography

k) Manufacture and retailing of tobacco and tobacco-related products

l) Consumer credit companies offering egregiously high interest rate loans and home-collected credit

m) Mining

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 is also an integral part of how Castlefield approach sustainability. The following themes provide the framework for assessing the positive credentials of any individual investment. Whilst we don't seek to invest exclusively in these themes, over time we have found that many of the investments that we make tend to fall into the following categories:

Our Screening Policy is reviewed by our internal Stewardship Committee and External Advisory Committee to ensure that it accounts for emerging sustainability trends. At the end of 2021, the policy was updated to include an additional four positive themes, which we believe represent additional investment opportunities in industries and activities that can positively benefit planet and people over the long term.

We do not use external rating agencies to conduct screening on our behalf but we do use the services of Ethical Screening as a research input for our positive and negative screening process for the majority of our UK equity exposure.

Principle 1 | Principle 7

POSITIVE THEMATIC ASSESSMENT

Cyber & Digital Security

In a technology-driven world, cyber and digital security is essential. It protects all kinds of data from theft, damage and other cyberthreats, to the benefit of all. The Cyber & Digital Security theme covers companies providing products or services which support consumer privacy, digital security and the development of secure digital infrastructures.

Education

Education is crucial to economic growth and development and should be accessible to all. Our Education theme covers the provision of products and services that improve the quality of education, such as scholastic materials or academic journals. This theme also encompasses companies widening access to education, along with developers of information technology for the education sector.

Employee Ownership & Responsible Business

Employee Ownership & Responsible Business is a theme which encompasses companies that provide employees with opportunities to build their own personal stake in the business. It is also linked to employee development, youth training, apprenticeships and STEM development. It is an important theme as it helps to align the interests of companies and their employees around securing long-term, sustainable growth. The companies in this theme stress the importance of protecting labour rights and promoting safe and secure working environments, for example, paying living wages.

Environmental Management

Healthy ecosystems purify our air, clean our water, provide us with food and regulate the climate. The environment provides the raw materials which are the foundation of all civilisation and which sustain our economies. Environmental Management is an important theme in our investments. It covers companies which are involved in emissions management, waste control, pollution monitoring and water use.

Financial Resilience

We define financial resilience as the ability to withstand life events that could impact an individual's income and/or assets. The Financial Resilience theme covers companies which provide products and services that lessen the impact of financially stressful events, such as unemployment, divorce, disability, and ill health. This includes firms providing products and services that enable individuals to save and develop financial independence. It also includes insurance companies which focus on improving security and reducing customers' risk exposure.

Health & Wellbeing

Staying healthy contributes to improved quality of life, increased productivity and, ultimately, longer lifespans. We recognise Health & Wellbeing as a positive theme which relates to companies providing products or services that improve access to affordable healthcare or result in better patient outcomes. This theme also includes companies providing products or services that prevent underlying causes of poor health, for example, through the provision of healthy food options and access to exercise facilities.

Resource Efficiency

Resource Efficiency increases the competitiveness of industries by stimulating innovation. It also boosts sectors such as recycling and resource recovery and helps to secure supplies of key materials. This theme covers companies that can increase the efficiency of resource intensive processes. These companies seek to improve their processes and practices in order to reduce the amounts of raw materials required to produce goods and services whilst also seeking to improve the energy efficiency of products.

Safety & Regulatory Compliance

Across the economy, companies need to comply with health, safety and other regulatory requirements to ensure the safety and wellbeing of employees, customers and the community at large. Regulatory compliance also helps to build trust with clients. Our Safety & Regulatory Compliance theme relates to companies which manufacture and produce safety equipment. In addition, this theme includes companies that provide products or services which contribute to the reduction of accidents, or that assist companies in meeting their regulatory requirements.

Sustainable Infrastructure

Societies need reliable infrastructure to connect people and supply chains. Sustainable Infrastructure is a theme which relates to companies involved in the provision of resilient infrastructure, including transportation. This theme also includes businesses involved in the manufacturing or operation of real assets, such as renewable energy infrastructure. In addition, this theme covers companies constructing, maintaining and managing social and affordable housing.

Sustainable Supply Chains

It is common for supply chains to be beset with environmental, social and legal concerns. The companies which fall into the Sustainable Supply Chains theme are committed to sourcing materials responsibly. They have policies and practices for eradicating a range of human rights issues, for example, forced and child labour, modern slavery and human trafficking within the supply chain. Another key aspect of this theme is that it also includes companies which take responsibility for their suppliers' environmental and social impacts and manage them in line with the growing expectations of stakeholders.

Principle 1 1 Principle 7 7

As of 31st December, you can see on the right how all of the direct holdings within our B.E.S.T Sustainable fund range break down in line with our recently amended list of positive themes. While we do not set formal requirements as to how many of our investments must meet the definition of one (or more) themes, we are pleased to report that just under 90% of our holdings can be categorised.

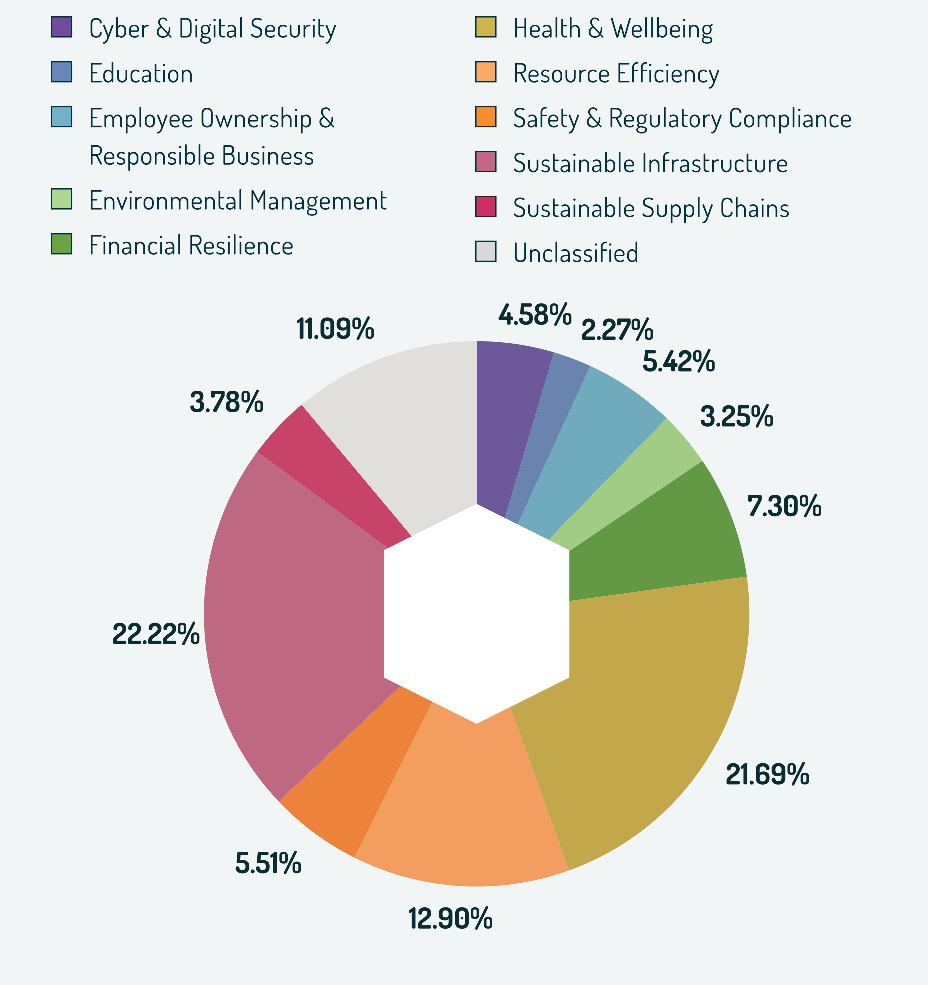
Those holdings which have been designated 'Unclassified' either sit outside of the key positive themes that we have identified or do not contribute to a theme meaningfully enough to be categorised. Some examples of industries and activities include companies in the leisure sector, operating hotels, or companies in the financial sector, such as professional services consultancies and asset managers where the percentage of assets managed in ESG or sustainability strategies is relatively low (but growing).

All new holdings are assessed against both our positive and negative themes and while there will remain holdings which we believe are 'benign' from an ethical and sustainability perspective, we believe that this chart can show how we are predisposed to favour investments which we believe have a positive impact on planet and people, as opposed to those which simply pass our negative screening criteria.

The chart (right) includes all direct equity and bond holdings within our B.E.S.T Sustainable fund range

In the first half of 2022, we will be providing further information about the breakdown of our equity fund holdings on our monthly factsheets, which can be found on the Castlefield website.

POSITIVE THEME EXPOSURE



Principle 1 1 Principle 6 6 Principle 7 7

POSITIVE THEME: EXAMPLE HOLDINGS

Cyber & Digital Security

GB GROUP

GB Group is a global specialist in identity data intelligence which helps service companies to verify the identity and locations of customers, as well as aiding compliance with regulation and protection against fraud. Specifically, it operates in three core areas: identity verification, fraud and location intelligence. The company has a broad customer base, currently serving over 20,000 customers which range from small companies to global businesses.[1]

Education

RELX

RELX is a global provider of information-based analytics and decision tools for professional and business customers. It develops and publishes information for academic, professional and business customers in the Scientific, Technical & Medical, Risk, Legal and Exhibitions sectors. In 2017, RELX created the online, open access SDG Resource Centre,[2] and continues to build it out, in order to fulfil its commitment to Quality Education (SDG 4). The Centre manages data, information, news, events and tools from across the company and key partners which can be freely accessed. In 2019, the Elsevier division created its online Novel Coronavirus Information Centre, available in both English and Mandarin. Here researchers upload the latest peer-reviewed research on COVID-19 from the company's highly regarded journals, with over 63,000 articles available free of charge.[3]

1. https://www.gbgplc.com/en/about-us/
2. https://sdgresources.relx.com/
3. https://www.elsevier.com/connect/coronavirus-information-center

Employee Ownership & Responsible Business

AMUNDI

Amundi is a leading asset manager with a significant amount of its total assets under management invested in responsible products and services. As of 3st March 2021, the company's responsible investments represented 705 billion euros, compared with their total assets under management of 1.749 trillion, representing just over 40%. Under the management team, responsible investment is core to the long-term strategy of the business and we expect its proportion of the company's assets to continue to grow.

Environmental Management

PENNON

Pennon is a water company servicing the South and South West of England. Pennon's vision is to bring "water to life" and its purpose is to deliver the high-quality water and wastewater services on which its customers depend safely, responsibly and in the most cost-effective and sustainable way possible. For 2022, the company has a set of clear and measurable environmental targets covering areas such as water quality, biodiversity and land management, for example planting 50,000 trees and restoring 300 hectares of peatland. [4]

Financial Resilience

PHOENIX GROUP

Phoenix Group is the UK's largest long-term savings and retirement business and operates several well-known pension and life insurance brands, including Standard Life and Sun Life. This broad range of companies and services enables Phoenix to support its 13 million customers[5] at every stage of their life. The population is increasing and people are living longer; by 2043 it is estimated that 24% of the UK population will be over 65[6] and defined benefit pension are rare these days, so individuals cannot rely on the state to support them in their old age. Phoenix helps foster financial resilience, i.e. dealing with life's financial ups and downs, by making it as easy as possible for individuals to save for retirement.

4. https://www.pennon-group.co.uk/sustainability/environmental
5. https://www.thephoenixgroup.com/about-us/our-purpose
6. https://www.thephoenixgroup.com/sustainability/deliver-customers

Health & Wellbeing

TRISTEL

Tristel is a manufacturer of infection and contamination control products. The core product is a chlorine dioxide disinfectant which is primarily used on medical instruments in hospitals. The disinfectant prevents the transmission of microbes, which can be a source of infection and subsequently cause illness or death, placing a heavy cost on individuals and society. Tristel products have several advantages over competitors. For example, they allow equipment to be prepared for the next patient quickly (typically around 30 seconds) as opposed to needing a duplicate instrument while the first one is being disinfected in a machine which can take up to 15 minutes. This makes Tristel products the most cost-effective method for hospitals to conduct an essential task.

Resource Efficiency

SCHNEIDER ELECTRIC

Schneider Electric's purpose is to empower all to make the most of our energy and resources, bridging progress and sustainability for all. The company has a leading market position in energy management and industrial automation and its products and services allow its customers to increase their energy efficiency. By 2025, Schneider Electric are targeting to deliver 800 million tons of saved and avoided CO2 emissions to their customers.[7]

7. https://download.schneider-electric.com/files?p_Doc_Ref=SustainabilityReport2020EN

Safety & Regulatory Compliance

INTERTEK

Intertek are global provider of testing, inspection, certification and assurance services, with over 1,000 locations in over 100 countries.[8] They work with businesses to ensure that products meet quality, health, environmental, safety, and social accountability standards and can help companies meet global accreditation standards. We believe that measuring and having external verification of key sustainability information helps stakeholders assess the credentials of companies and is crucial for businesses to demonstrate their impact on the world around them. Companies such as Intertek have in important role to play in enabling and accelerating the trend towards increased disclosure.

Sustainable Infrastructure

INVINITY ENERGY SYSTEMS

Invinity Energy Systems is a leader in development and deployment of vanadium redox flow batteries used in industrial-scale energy storage. Invinity's flow batteries store energy in a non-flammable, liquid electrolyte, held in tanks within a self-contained module. Larger, safer and more robust than lithium-ion systems, flow batteries do not degrade with use like conventional batteries and have a 20-25-year lifetime. Longer-term energy storage systems will be crucial in increasing the share of renewable energy sources and in the move towards decarbonising the economy.

Sustainable Supply Chains

SAP

SAP is a German multinational software business that develops enterprise software to support business operations and customer relations. It is extremely useful in its ability to audit supply chains from a sustainability point of view, and it forms an integral part in business leaders' ability to measure and control water and carbon usage, in addition to auditing the provenance of ingredients and their traceability.

8. https://www.intertek.com/about/

IMPACT MEASUREMENT: B.E.S.T SUSTAINABLE FUND RANGE

In 2021, for the first time, we asked some external consultants to assess the six funds in our B.E.S.T Sustainable fund range. The aim was to understand how our performed on social, environmental and governance (ESG) grounds compared to their respective benchmarks. The benchmarks have been selected by Impact Cubed to best reflect the geographic exposure and index alignment of each fund.

The analysis by Impact Cubed brought four main findings to the fore, which we outline in more detail below.

1. The funds perform well on carbon

Firstly, all six funds have a much lower carbon footprint than their benchmarks. Across scope 1, 2 and 3 emissions, the companies in our funds produce less carbon per $1m of revenue generated than their counterparts. We had hoped that this would be the case given that we avoid investments in carbon intensive industries such as fossil fuel extraction, but we are pleased to have it confirmed by an independent third party. Overall, our funds also performed well on other environmental metrics, with five of the six funds having greater water and waste efficiency than their benchmarks.

2. The data reflects our negative screening and positive selection

Our investment ethos centres on us excluding socially and environmentally damaging industries from our funds and, wherever possible, investing in companies with positive social and environmental attributes. This approach is borne out in the analysis by Impact Cubed: compared to their benchmarks, each of our funds has a lower percentage of the portfolio allocated to activities that are environmentally destructive or that aggravate social issues. In addition, all the funds have higher proportions invested in companies providing environmental solutions or providing goods and services that alleviate social issues.

3. Executive pay ratios are lower

Our funds have lower executive pay ratios than their benchmarks. Executive pay ratios give an insight into how pay is distributed within a company. Specifically, they highlight how much more top executives are paid than the average employee. So, a pay ratio of 10:1 means that a company's executives are paid ten times more than the average employee. We're pleased that our funds show a lower disparity in pay awards across the firms that we invest in, not least because we ourselves are an employee-owned business which aims to ensure that all our employees (or co-owners as we call ourselves) share in the rewards of our combined efforts. We also take a strong stance on excessive boardroom pay and regularly vote against egregious pay awards.

That said, we do not exclude companies from the fund due to excessive boardroom pay: it's so commonplace that it would unduly narrow our investment options to do so. The most likely reason for lower executive pay ratios in our funds is due to the sectors we invest in. For example, we have a low proportion of investments in retail and hospitality, where the majority of employees are likely to be paid around minimum wage.

4. There's still more work to do

In the interest of transparency, it's also important to note that the analysis also highlighted areas where our funds underperform their benchmarks.

One such area is board independence, where all our funds underperformed. As investors, having independent board directors is important as it shows that there is impartial oversight of the business and the management team. However, there are reasons why our funds may have underperformed in this area. For example, a number of the companies in our European Fund have links to the business' founding families. Similarly, in our Smaller Companies Fund, the business' founders may remain on the board in an executive or advisory capacity. In both instances, this would impact our data on board independence compared to the benchmark.

Overall, we are pleased with the independent assessment and hope to re-visit it in future years. We aim to use the analysis as way of monitoring our own progress over time.

The following pages show fund-by-fund performance on selected indicators.

Principle 6 6 Principle 7 7

CARBON EFFICIENCY

Emissions per $1M revenue

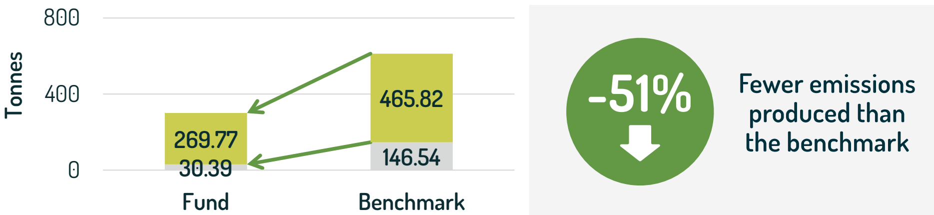
Scope 1 & 2 emissions Scope 3 emissions

Scope 1 emissions: Emissions generated directly by the company, e.g. emissions from boilers or vehicle fleet.

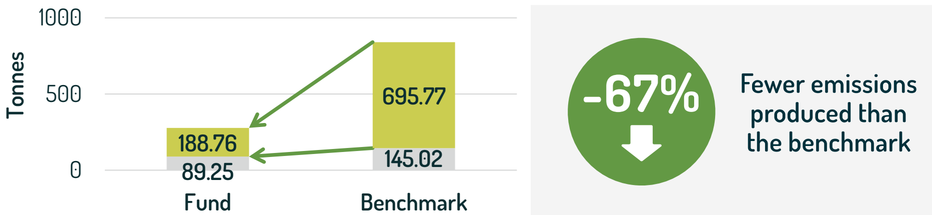
Scope 2 emissions: Indirect emissions, eg. from purchased electricity that the company uses.

Scope 3 emissions: All other emissions in a company's value chain.

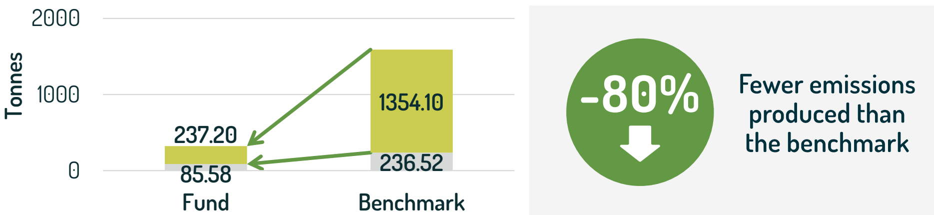
CFP Castlefield B.E.S.T Sustainable European Fund



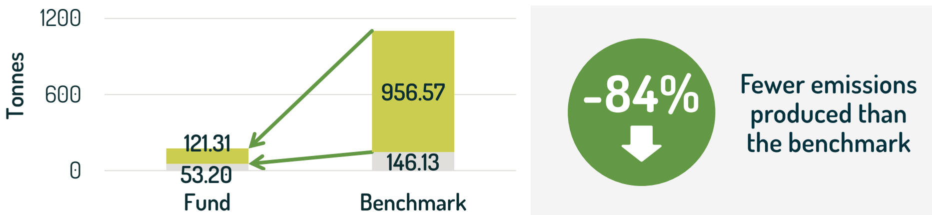
CFP Castlefield B.E.S.T Sustainable Portfolio Income Fund



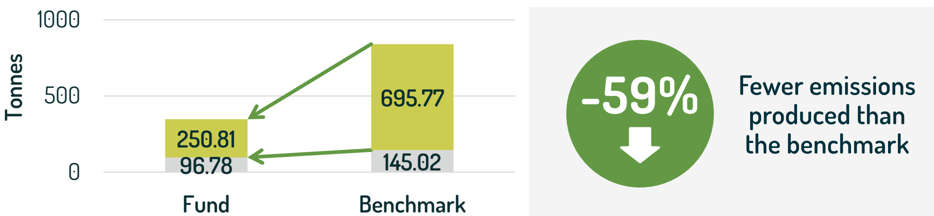
CFP Castlefield B.E.S.T Sustainable Income Fund



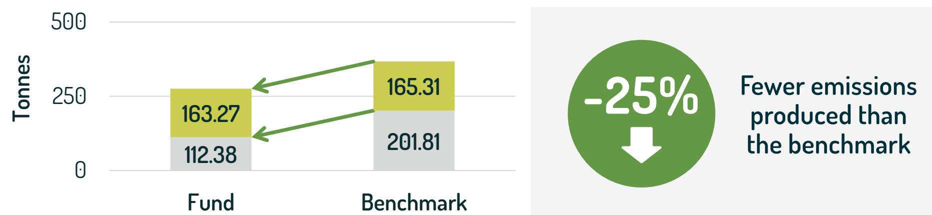
CFP Castlefield B.E.S.T Sustainable UK Opportunities Fund



CFP Castlefield B.E.S.T Sustainable Portfolio Growth Fund



CFP Castlefield B.E.S.T Sustainable UK Smaller Companies Fund



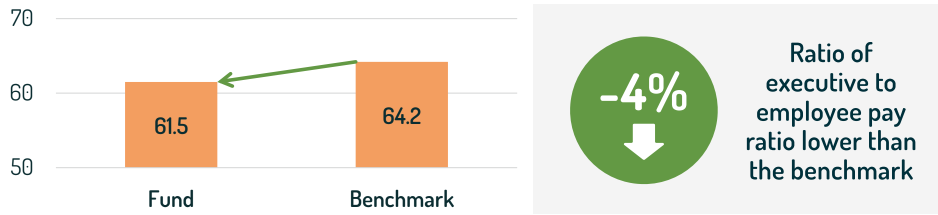
For source information please see page 25

EXECUTIVE PAY

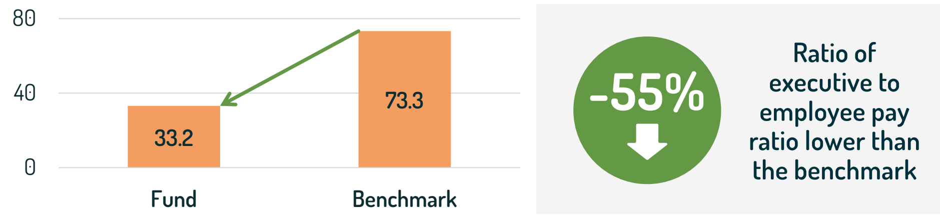
Comparing executive pay to employee pay

Ratio of executive level pay to average employee pay

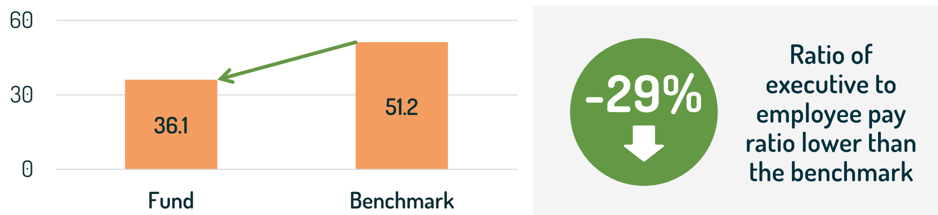
CFP Castlefield B.E.S.T Sustainable European Fund



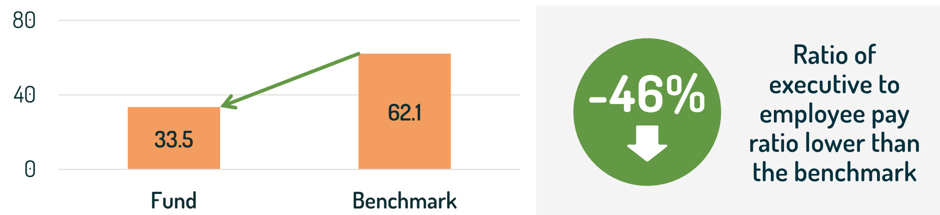
CFP Castlefield B.E.S.T Sustainable Portfolio Income Fund



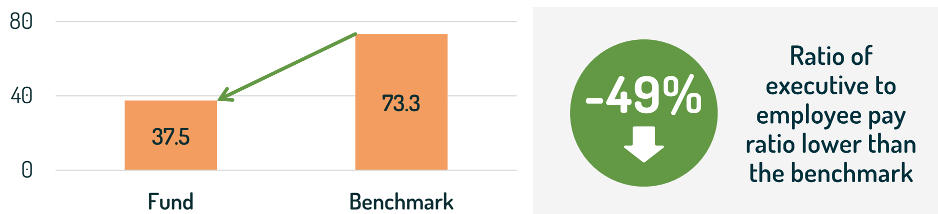
CFP Castlefield B.E.S.T Sustainable Income Fund



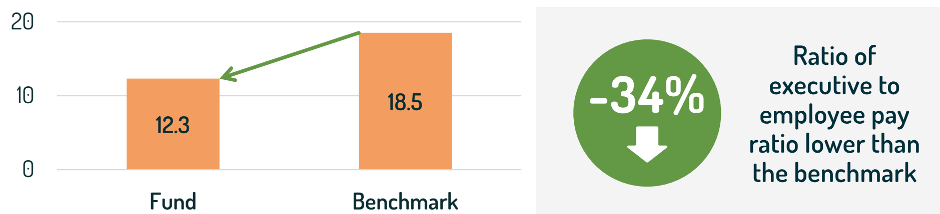
CFP Castlefield B.E.S.T Sustainable UK Opportunities Fund



CFP Castlefield B.E.S.T Sustainable Portfolio Growth Fund



CFP Castlefield B.E.S.T Sustainable UK Smaller Companies Fund



For source information please see page 25

SOCIAL & ENVIRONMENTAL GOOD

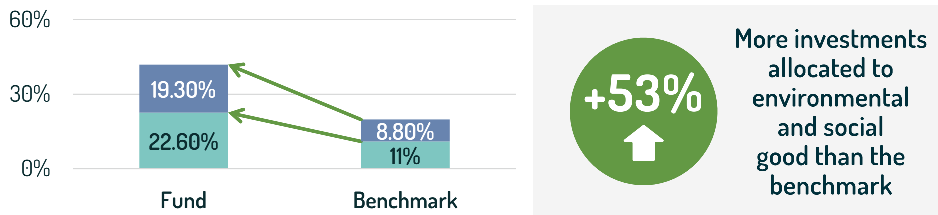
Percentage of funds allocated to environmental and social good

Environmental Good   Social Good

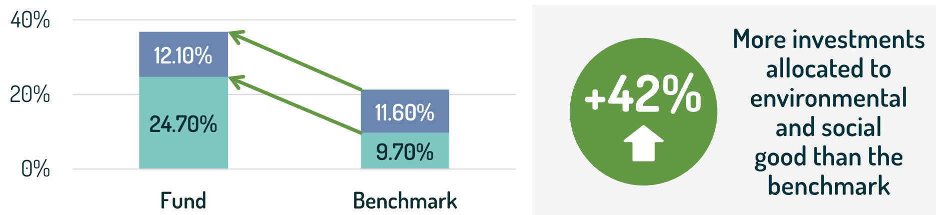
Examples of environmental good: renewable energy, waste and environmental management, public transportation services

Examples of social good: telecoms, educational services, healthcare

CFP Castlefield B.E.S.T Sustainable European Fund



CFP Castlefield B.E.S.T Sustainable Portfolio Income Fund



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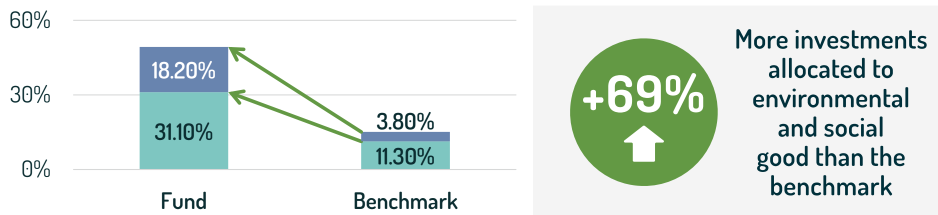

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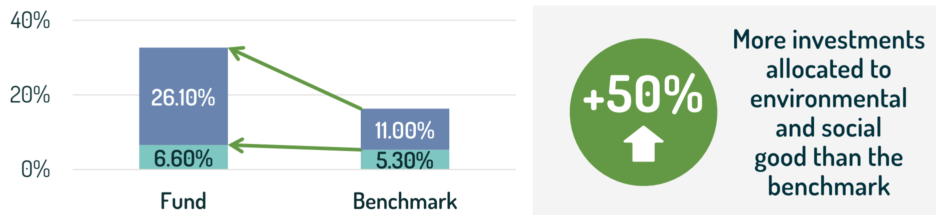
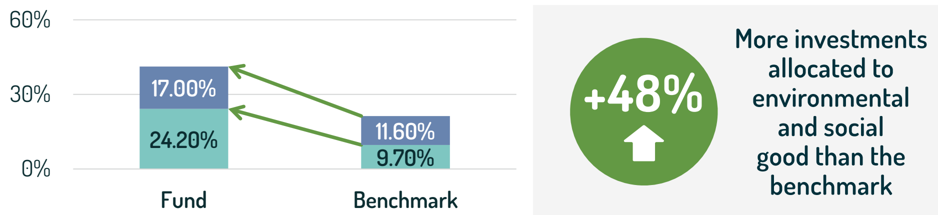
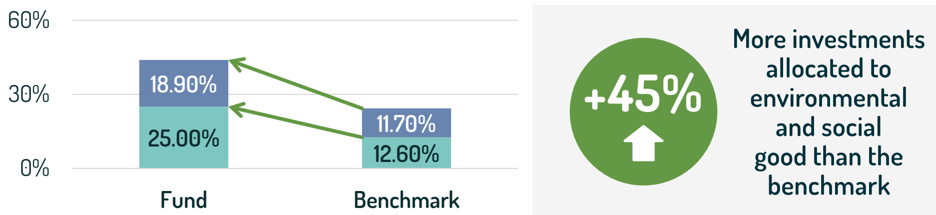


CFP Castlefield B.E.S.T Sustainable Portfolio Growth Fund



CFP Castlefield B.E.S.T Sustainable UK Smaller Companies Fund



For source information please see page 25

SOCIAL & ENVIRONMENTAL DAMAGE

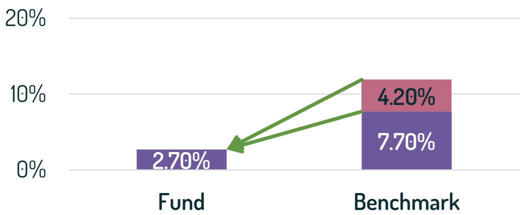
Percentage of funds that create environmental and social harm

Environmental Harm   Social Harm

Examples of environmental harm: oil and gas exploration, plastic production, coal mining

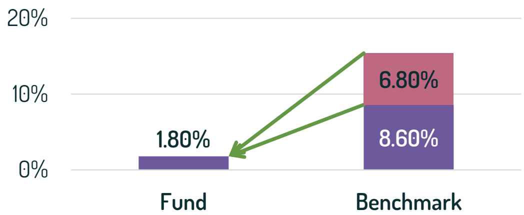
Examples of social harm: tobacco, gambling and casino

CFP Castlefield B.E.S.T Sustainable European Fund



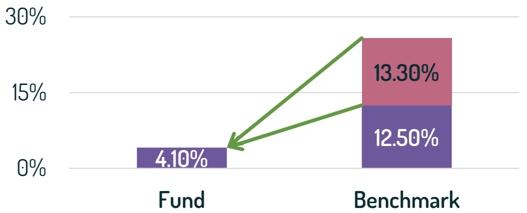
-77% Fewer investments that create environmental and social harm than the benchmark

CFP Castlefield B.E.S.T Sustainable Portfolio Income Fund



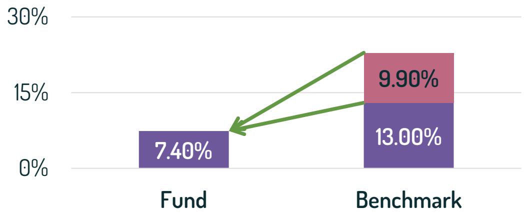
-88% Fewer investments that create environmental and social harm than the benchmark

CFP Castlefield B.E.S.T Sustainable Income Fund



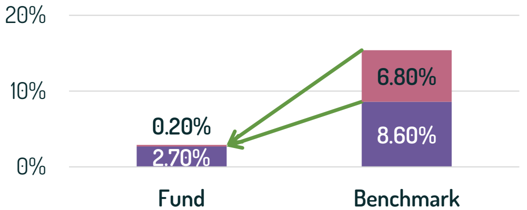
-84% Fewer investments that create environmental and social harm than the benchmark

CFP Castlefield B.E.S.T Sustainable UK Opportunities Fund



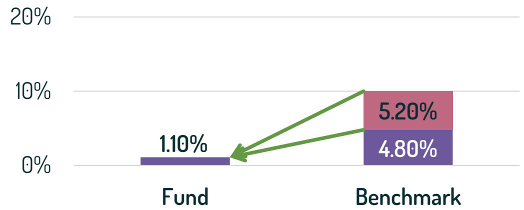
-68% Fewer investments that create environmental and social harm than the benchmark

CFP Castlefield B.E.S.T Sustainable Portfolio Growth Fund



-81% Fewer investments that create environmental and social harm than the benchmark

CFP Castlefield B.E.S.T Sustainable UK Smaller Companies Fund



-89% Fewer investments that create environmental and social harm than the benchmark

For source information please see page 25

IMPORTANT INFORMATION

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Castlefield funds and benchmarks used by Impact Cubed for the impact analysis

FUND	BENCHMARK USED IN IMPACT ANALYSIS
B.E.S.T Sustainable UK Opportunities Fund	UK main market benchmark
B.E.S.T Sustainable Income Fund	Benchmark of UK stocks with leading dividends
B.E.S.T Sustainable Smaller Companies Fund	Benchmark of AIM listed stocks
B.E.S.T Sustainable European Fund	Benchmark of European companies, excluding UK companies
B.E.S.T Sustainable Portfolio Income Fund and B.E.S.T Sustainable Portfolio Growth Fund	Benchmark comprising 50% UK main market and 50% global stocks (excluding UK)

More information on the benchmarks used is available on request.

Impact Cubed analysis was carried out on 21st October 2021, based on fund holding data as at 30th June 2021.

STEWARDSHIP & ENGAGEMENT IN ACTION

2021 ENGAGEMENT: A YEAR IN REVIEW

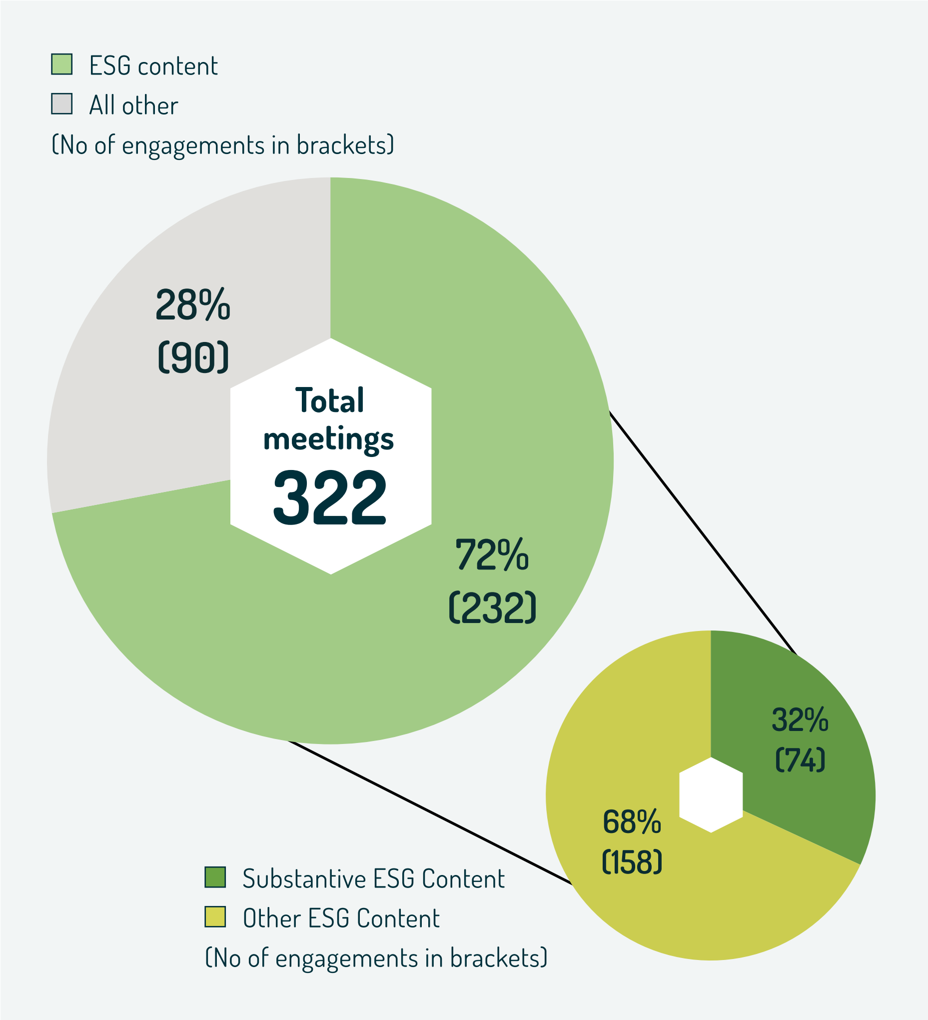
Over the past five years, we at Castlefield have made huge strides in how we engage, the breadth of topics and the regularity of contact with our investee companies. Technology has assisted these occasions in the post Covid world, and we find our ability to forge and maintain relationships is not diminished, quite the opposite in fact. We focus on several areas of engagement under three themes. Environmental, Social and Governance.

Of the 322 engagements with companies in the last 12 months, 232 included discussion of ESG topics. This represents an increase in the percentage of meetings where ESG topics were discussed, up to 72% from 63% last year.

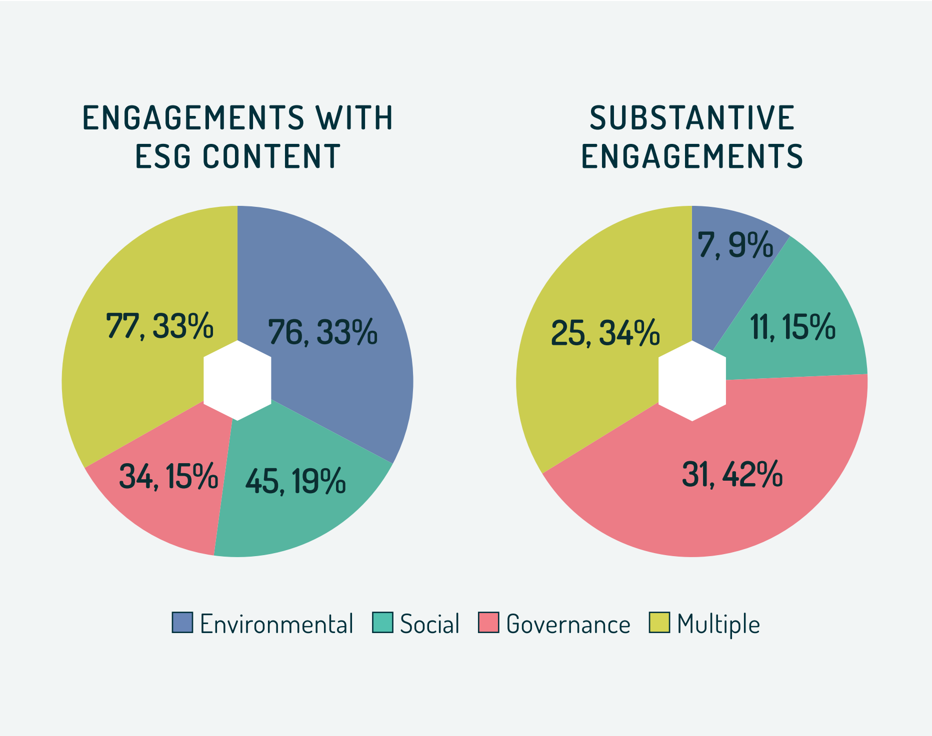
Of the 232 engagements with ESG content, 74 were deemed to be substantive, meaning that it took up a significant portion of the call or meeting, or were meetings where we had specific ESG questions or topics that we wanted to put to the company for a response.

During the pandemic we saw a big uplift in engagements on social topics, representing 23% of all meetings including ESG content, as we wanted to ensure that the social contract between companies and their employees was unaffected by the short-term responses required by crisis management. No surprise that 2021 therefore has seen a moderate shift away from social to environmental issues as new legislation comes to the fore.

ENGAGEMENTS WITH COMPANIES IN THE LAST 12 MONTHS



Last year environmental issues captured 33% of our ESG engagements rising from 27% in 2020. With a world looking ahead to net zero carbon emissions, we are very clear that we expect our companies to grasp the concept and start to make provisions for the necessary investments to bring about a decarbonization of their business models well before 2050. Finally, governance is an issue which remains a constant feature of our engagement. We do note that it does represent over 42% of what we characterise as substantive engagements, highlighting our robust approach to issues such as remuneration, board independence and conflict of interest avoidance.



OTHER ENGAGEMENT

Castlefield Projects	17
Collaborative Engagements	60

These 'Other Engagement' figures relate to engagements that take place outside of our more usual conversations with management or investor relations teams.

- **Collaborative engagements** may include actions such as co-signing letters, contacting companies to encourage them to participate in collaborative investor initiatives such as CDP or the Workforce Disclosure Initiative (WDI).
- **Castlefield Projects** relate to more targeted, thematic engagements that we have undertaken, for example in 2020, we contacted all our investee companies to ask about the impact of the COVID-19 pandemic. The figures this year relate to an ongoing stream of engagement with AIM-listed businesses about diversity and transparency around remuneration.

Written by
Rory Hammerson

REAL ESTATE AND CLIMATE CHANGE

As you may remember from last year's annual Stewardship Report, we've been interested in understanding how our investments in real estate (and other assets that heavily utilise property) measure up against both energy efficiency and climate change targets.

We sent out a survey and conducted interviews with investee companies that had material exposure to the property sector either directly or indirectly for example, hotels or supermarkets. Surveys were sent to 27 different holdings and of those, 15 responded, equating to a 56% response rate. We viewed this as very positive, not only because the typical response rate for surveys is only around 30%,[1] but also because many companies that we corresponded with were still facing an extremely demanding operating environment.

THE SURVEY

The survey consisted of three different sections. The first section focused on the governance structure of the firm and examined whether there was a director responsible for climate change strategy and how often the firm engaged with relevant stakeholders on climate related issues. We were especially curious about this because, to tackle the climate crisis, people must work together to form a coherent and coordinated plan to address the relevant issues. Companies that actively engage with a variety of different stakeholders and have directors with the designated responsibility for assessing climate risk are more likely to have a greater understanding of their climate impact and are subsequently better equipped to mitigate it.

The second section of the survey centered on climate risk and the steps being taken to future-proof assets alongside any potential opportunities that might arise from the transition to net zero. This line of questioning allowed us to critique our holdings' climate transition plans, if indeed they had any. More detailed responses indicated that planning was underway and property assets were more likely to be climate resilient.

> "We've been interested in understanding how our investments in real estate measure up against both energy efficiency and climate change targets."

1. https://www.smartsurvey.co.uk/blog/what-is-a-good-survey-response-rate

The final section of the survey concentrated on the environmental and energy efficiency accreditations deemed most relevant to our investee companies. There are numerous accreditations that companies can target, so we decided to ask which ones they prioritized, to gain a clearer picture of the most commonly used frameworks across sectors. In addition to this, we also enquired about science-based and net zero targets alongside the main hurdles faced when transitioning to a low or zero carbon business model.

CONCLUSIONS

There are several high-level points that we can deduce from our findings. Firstly, we found that a single director responsible for sustainability was the most common approach taken. The next most popular method was the formation of sustainability committees or working groups. Of the companies that responded, only one did not have anyone directly responsible for sustainability. Another point we can highlight from our analysis regards the vulnerability of assets to events linked with climate change such as flooding. Across the portfolio, the most frequent response was that either zero or very few assets were at risk, and those that were, had plans in place to mitigate the risk. What is interesting however is that multiple firms failed to track this at portfolio level and therefore could not provide exact numbers. It is important to reiterate that whilst assets may not be at risk now, they could be in the future, therefore it is vital for companies to regularly carry out assessments on their assets and track their exposure. The final high-level insight we can interpret from the survey concerns sustainability accreditations. There were a range of accreditations referenced by our investee companies including GRESB, LEED and EPC's however the most popular accreditation was found to be BREEAM. This was unsurprising to us because BREEAM is the de facto standard in the UK for new developments and refurbishments alike, and our survey primarily consisted of UK based companies.[2] For more detailed insights, keep an eye out over the coming weeks for our energy efficiency report.

Written by
Barney Timson

2. https://www.buildenergy.co.uk/services/breeam/what-is-breeam/

A CASTLEFIELD PERSPECTIVE ON WIND POWER AND ITS ROLE IN THE UK'S ENERGY MIX

The topic of renewable energy is extremely pressing in society today. At a UN roundtable discussion in 2020, the Prime Minister Boris Johnson claimed that the UK will soon be classified as the 'Saudi Arabia of wind power'.[1] Comparing the UK's wind power generation to the strength of the Saudi oil industry is a powerful statement which suggests that the UK has the potential to be the principal player in the generation and use of wind power, leading the world in clean and renewable energy sources. The UK is reputed to have pioneered the use of wind power; the very first wind turbine in the world used to produce electricity was built in Scotland by Professor James Blyth.[2] Since that time, the UK has undoubtedly seen steady growth in wind power as a key energy source, most notably over the last decade.

We have recently published a short report on the topic, the most recent in our series of thematic reviews, which outlines the prominence of the UK's use of wind power, evaluates the benefits, costs, and potential obstacles to its use, and provides an overview of the Castlefield perspective on our long-term commitment to invest in wind power.

At Castlefield, we see the increasing use of renewable energy as an investment opportunity. We invest in companies that specialise in renewable energy as they are aligned to our objectives of sustainability and responsible investment. Some examples of companies whose shares we hold that specialise in wind power generation are Vestas Wind Systems, Greencoat Renewables and Greencoat UK Wind. We hold these companies because we believe that their core aim, to reduce carbon emissions by decreasing reliance on fossil fuels, will provide consistently strong investment returns. We believe these companies are well managed, strong franchises which continue to innovate in the right areas. The demand for wind power is growing strongly. The cost of producing turbines has reduced significantly and innovation has accelerated technological advances. The renewables industry is now reaching a level of maturity which requires less public sector support and subsidy.

> "At Castlefield, we see the increasing use of renewable energy as an investment opportunity."

1. Rincon, Paul (2020). UK can be 'Saudi Arabia of wind power' – PM. https://www.bbc.co.uk/news/science-environment-54285497
2. Shahan, Zachary (2014). History of Wind Turbines. https://www.renewableenergyworld.com/storage/history-of-wind-turbines/#gref

In addition to investing directly in wind turbine manufacturers and operators, increasing investment in the technologies that allow the storage of the energy generated by renewable sources in order to distribute it when required is essential to the increased use of renewable energy. Examples of this type of investment can be seen in our holdings in Gresham House, Harmony and Gore Street Energy Storage Funds, which are battery storage investment trusts. Whilst they don't invest directly in wind turbines, they invest in the battery storage systems needed to make the energy generated storable. Additionally, we have also recently initiated a position in Invinity Energy Systems within our Castlefield B.E.S.T Sustainable UK Smaller Companies Fund, who produce vanadium flow batteries. We expect this to be another key technological development which can store the energy generated from wind power for longer durations.

We support wind power as a long-term solution in the fight against climate change. Our knowledge of the benefits of wind power gives us confidence that the technology is an attractive and resilient investment opportunity for client portfolios.

Written by
India Harkishin

"An important first step on the path to net zero is understanding the existing level of commitment that the companies in our funds have made to reducing their carbon footprint."

NET ZERO

In December 2021, Castlefield formally adopted the following net zero policy:

- We commit to making our own operations and supply chain net zero by 2030, and
- We aim to achieve net zero in our investment portfolio by 2040.

Below we set out our rationale for the target dates that we have chosen:

2030 for our operations and supply chain: Climate science tells us that it is fundamentally important to make significant emissions reductions this decade. Therefore, for the emissions sources that we control, Castlefield commits to making substantial reductions as quickly as is feasibly possible. Hence the 2030 target for our own operations, which is some 20 years ahead of the legally binding commitment for companies in the UK to become Carbon Net Zero by 2050. This reflects our view that it is important that all businesses, large or small, take responsibility for their direct carbon footprint.

2040 for our investment portfolio: Whilst we do not have direct control over the emissions from the companies that we invest in, Castlefield has an investment approach that seeks out companies with excellent environmental credentials, and that can help towards society becoming Net Zero. A 2040 deadline, or a decade before investee companies would be legally obliged to be Net Zero, is a challenging target. Castlefield's commitment to engaging with companies will be instrumental in achieving this goal and our clients would expect us to be ambitious, hence the 2040 target for our investment portfolios.

STATUS OF OUR PORTFOLIO

An important first step on the path to net zero is understanding the existing level of commitment that the companies in our funds have made to reducing their carbon footprint. We have been monitoring this in two ways. Firstly, by assessing the proportion of our equity funds that participate, and perform well in, the CDP (Carbon Disclosure Project) annual survey. Secondly, by understanding the extent to which the companies in our funds have already set their own net zero targets.

CARBON DISCLOSURE PROJECT (CDP)

The CDP is an initiative that encourages companies to report year-on-year on their carbon footprint and key emission sources. By encouraging companies to report in a uniform manner, businesses can compare their carbon performance against their peers. In addition, investors like ourselves can use the data in our decision-making. CDP released its annual assessment of corporate reporters in late 2021 and we have used this updated information to assess our investee companies.

Although the CDP scoring system ranks companies from A to F, our primary interest is in the higher scoring A to B- range. Scores within this range mean that companies are reporting comprehensively on their carbon footprint. Comparing the CDP scores year-on-year, it is clear that the biggest change has been within the European fund: 53% of the fund's weighted holdings now score A to B-, up 13% on the previous year.

In addition, 42% of the weighted holdings of the Income Fund and 38% of the UK Opportunities Fund are now reporting to a standard of B- or above, which is pleasing. Companies in our Smaller Companies Fund tend not to participate in the CDP, as the initiative is aimed at larger companies. Nevertheless, firms in our Smaller Companies Fund are making good progress on setting net zero targets, as we explain in more detail below.

PORTFOLIO COMPANY NET ZERO TARGETS

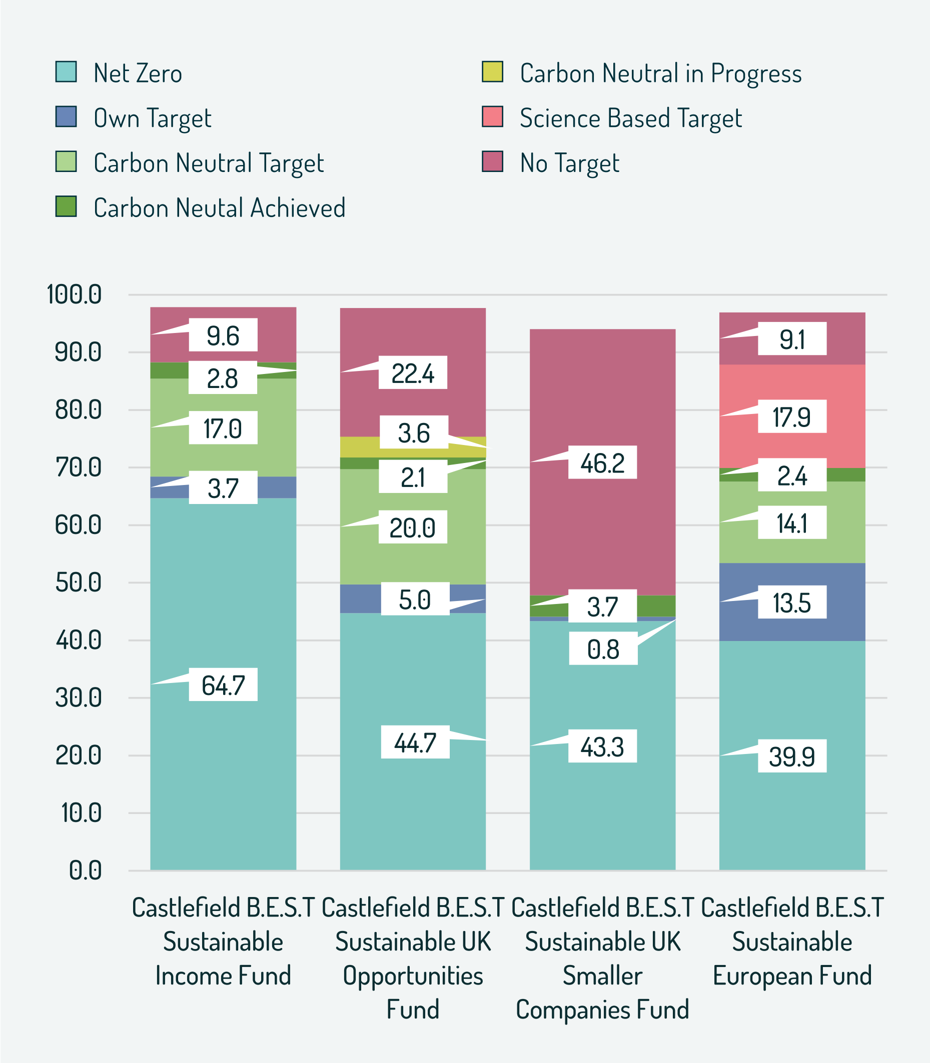
In a similar fashion, we have been monitoring the extent to which the companies that we invest in have set net zero targets. We've recently revisited the analysis that we carried out six months ago based on the previous data set and there has been a significant increase in companies making net zero pledges, no doubt influenced, in part at least, by the COP 26 climate change conference that took place in Glasgow in autumn 2021.

It is heartening to see that since the last publication of data, all of our equity funds now have a much larger proportion of their weighted holdings committing to net zero targets:

- 65% of the B.E.S.T Sustainable Income Fund has a Net Zero target up from 55%.
- 43% of the B.E.S.T Sustainable UK Smaller Companies Fund has a Net Zero Target, a significant increase from 21% in our last analysis.
- 45% of the B.E.S.T Sustainable UK Opportunities Fund has a Net Zero target compared with 34% in our previous analysis.
- 40% of the B.E.S.T Sustainable European fund now has a Net Zero target compared to 38% of the fund when we conducted our last analysis.

We intend to keep talking to the companies that we invest in over the year ahead to stress the importance of adopting ambitious net zero targets with strong interim goals to ensure that steep emissions reductions are carried out this decade.

The graph (right) shows which, if any, targets are in place for each of our equity funds by holding weight. Data for fund holdings weights correct as of 31st December 2021.



"Castlefield is an investor signatory to CDP, the global not-for-profit charity organisation with a goal of making environmental reporting mainstream."

Barney Timson

Executive, Investment Management

CDP SIGNATORY STATUS AND NON-DISCLOSURE CAMPAIGN UPDATE

Barney Timson outlines how Castlefield's involvement with CDP has encouraged investee companies to increase their disclosure of environmental and climate data.

Castlefield is an investor signatory to CDP, the global not-for-profit charity organisation with a goal of making environmental reporting mainstream. As we have discussed in our Net Zero analysis, they operate a standardised disclosure framework that allows investors and companies (among others), to measure, track and compare the environmental impact of a business against historical figures, and also against peers. The idea behind these frameworks is that over time, any potential areas of concern are highlighted and can be improved. CDP hold the world's richest and most comprehensive climate reporting dataset thanks to their continued involvement in this sector for over two decades.[1]

Earlier this year, we took part in CDP's non-disclosure campaign. This campaign is one of several collaborative engagements that bring together CDP signatories from all over the world with the collective aim of improving environmental disclosure. Every year CDP asks thousands of companies to complete their standardised thematic questionnaires in order to improve the quality and comparability of environmental data. Unfortunately, not every company responds to these calls – in 2020, only 38% of the companies contacted responded.[2] This campaign aims to rectify this issue by having investors and asset owners contact the non-responders directly, utilising their influence as shareholders to encourage them to disclose.

As part of the 2021 campaign, a total of 168 investors with combined assets under management of $17 trillion approached over 1300 companies regarding environmental disclosure.[3] At Castlefield, we were very keen to get involved in this and we sent letters directly to seven of our investee companies. In addition, we also co-signed letters to a further five companies. These letters reiterated the importance of disclosing environmental data so that companies can understand any potential climate-related risks, highlighted the benefits of comparable, complete, and reliable data for investment analysts carrying out company research and urged the companies to respond to CDP's climate questionnaire.

As a result of these actions, five companies subsequently made the decision to take part and completed CDP's climate change questionnaire. This was very encouraging because historically, on average, only 20% of companies approached by institutional investors and asset owners in the non-disclosure campaign respond, and the number that fully disclose to CDP as a result of the campaign is much lower.[4] What is even more promising is that this was the first time any of these five companies had been contacted in the non-disclosure campaign. Given that this was also the first time we had taken part in the campaign, we are very pleased with how successful it has been. However, disclosure is an ongoing process, and we cannot rest on our laurels. As things stand, 70 of our investee companies currently report their environmental data to CDP and we are aiming to assist CDP in growing this over the coming years. We look forward to getting involved once again in next year's non-disclosure campaign.

Written by Barney Timson

1. https://www.cdp.net/en/info/about-us/what-we-do
2. https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/502/original/CDP-2020-Non-Disclosure-Campaign-Report.pdf?1610646806
3. https://www.cdp.net/en/articles/media/a-record-168-investors-with-us17-trillion-of-assets-urge-1300-firms-to-disclose-environmental-data
4. https://cdn.cdp.net/cdp-production/cms/reports/documents/000/005/502/original/CDP-2020-Non-Disclosure-Campaign-Report.pdf?1610646806

COLLABORATIVE ENGAGEMENT

ACCESS TO MEDICINE FOUNDATION: GLOBAL INVESTOR STATEMENT IN SUPPORT OF AN EFFECTIVE, FAIR AND EQUITABLE GLOBAL RESPONSE TO COVID-19

At Castlefield, we believe that it is imperative that lower-income nations are not left behind in the race to roll out a vaccine and it is crucial that the acutely unequal power dynamics at play within vaccine manufacture and global health are recognised and addressed. We have therefore joined other investors calling for a clear strategy to ensure the reasonable distribution of COVID-19 vaccinations globally. In February, we joined close to 150 institutional investors issuing a joint statement calling for a fair and equitable global response to the pandemic. At the point of the statement, of the 128 million doses of COVID-19 vaccines administered, over three quarters had been delivered in 10 countries which account for around 60% of global GDP.[1]

There are very clear moral issues at the heart of vaccine distribution and the current health and social cost of the pandemic. However, world leaders must also recognise the serious economic consequences of not curbing the spread of coronavirus in less developed markets.

The statement called on world leaders, governments, and international organisations to support the financing of fair and equitable access to COVID-19 tools globally and to explore the feasibility of innovative finance mechanisms for national and global COVID-19 responses. It also encouraged pharmaceutical companies to contribute to cross-industry partnerships to accelerate R&D and expand production, equitable pricing strategies, and voluntary licensing agreements.

Read the full statement here:
https://bit.ly/3ujmVtD

> "Access to medicine is a material ESG issue for multiple reasons: it is a significant reputational risk for a highly-regulated sector, a business opportunity in emerging markets with large populations and growing burdens of diseases, and a powerful insurance against the development and spread of new infectious disease variants. This is why Castlefield and the Access to Medicine have been strong partners to ensure that pharmaceutical companies play their part towards Sustainable Development Goal 3."
>
> - Damiano de Felice, Director of Strategy

1. https://accesstomedicinefoundation.org/news/investors-issue-urgent-call-for-fair-and-equitable-global-response-to-covid-19

INVESTOR LETTER TO PHARMACEUTICAL COMPANIES PRODUCING COVID-19 VACCINES

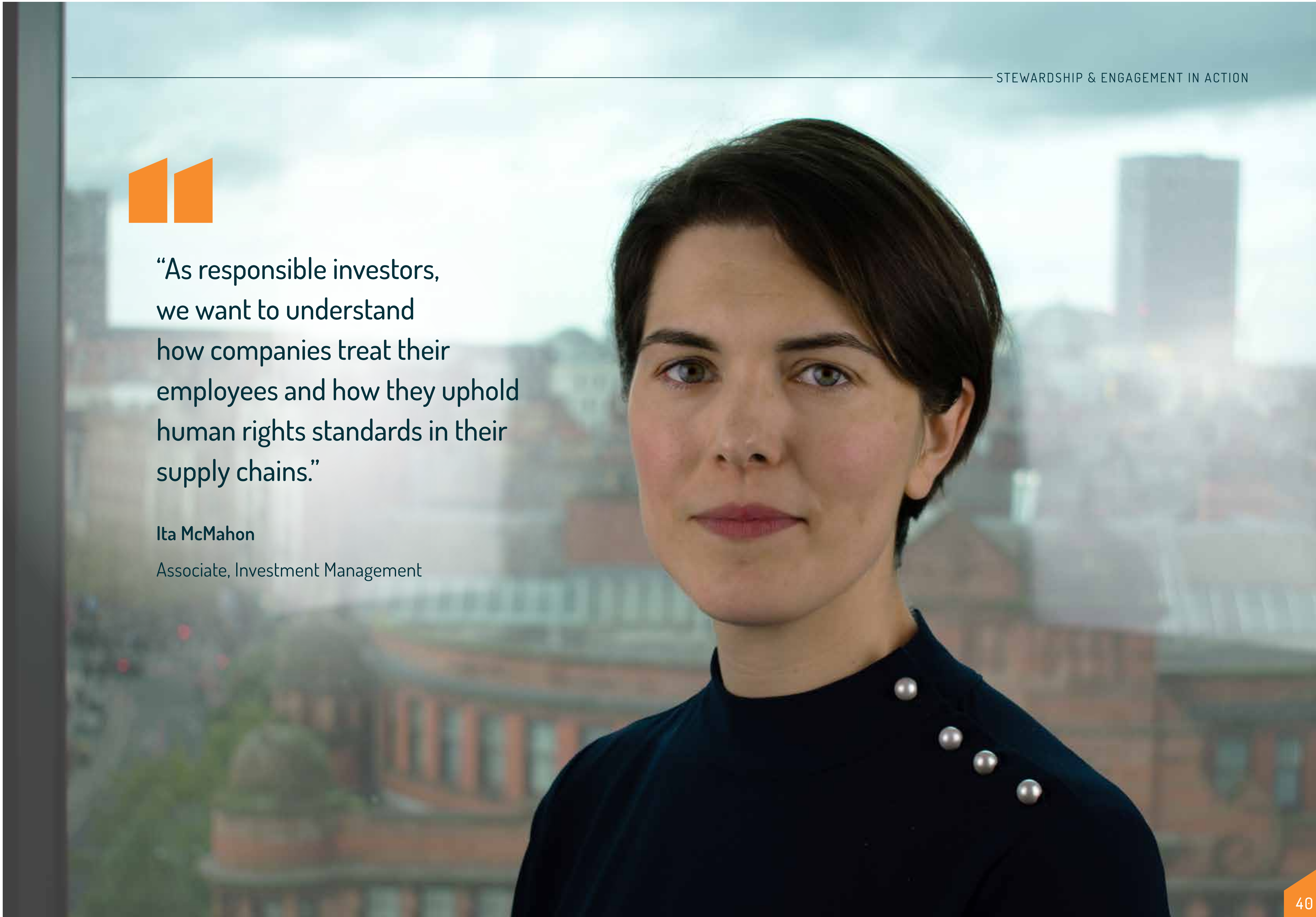
In December, we joined with a group of investors to sign a letter addressed to four pharmaceutical companies, AstraZeneca, Johnson & Johnson, Moderna and Pfizer, setting out our request that they integrate the WHO goals into the executive remuneration strategy in a meaningful, material, measurable and transparent way.

It is clear that currently a large part of the world population still does not have sufficient and equitable access to vaccines. There is concern that this scenario might repeat itself once more treatments become available. A pandemic which remains out of control in many parts of the world is and should be at the top of our agenda as global investors, and also for governments and the companies in which we invest.

We believe that these companies need to ensure that an effective, fair and equitable global response to COVID-19 is of the highest priority for its executive management teams. The integration of the WHO goals into executive remuneration policies as a salient financial and material step ahead of the upcoming AGM season.

This letter has recently been made public and can be found here:

https://news.achmea.nl/download/1125576/letterexecutiveremunerationpharma-4-1-2022-def.pdf



"As responsible investors, we want to understand how companies treat their employees and how they uphold human rights standards in their supply chains."

Ita McMahon

Associate, Investment Management

COLLABORATIVE ENGAGEMENT: WDI

The Workforce Disclosure Initiative (WDI) is an investor coalition that aims to improve corporate reporting on employees and supply chain working standards. We've been a supporter of the WDI for a number of years: as responsible investors, we want to understand how companies treat their employees and how they uphold human rights standards in their supply chains.

The coalition is made up of 68 institutions, with $10 trillion in assets under management.[1] Now in its fifth year, companies submit workforce and supply chain data to WDI's central hub, thereby providing investors and other stakeholders with data and insights into the working conditions of over 12 million workers globally.[2]

In terms of what we and other investors do, every summer we work with the WDI coordinators at ShareAction to lobby more companies to complete the WDI questionnaire. We often find that companies, particularly those that haven't heard of the WDI previously, might not be receptive the first year that they are asked. It's our role as investors to make the case for their involvement in the WDI and to keep applying pressure over time. Moreover, data shows that companies participating in WDI increase their disclosures over time.[3]

Over summer 2021, Castlefield contacted over a dozen companies to encourage them to complete the WDI survey. Of the 12 businesses, two committed to participating. We entered into detailed conversations with a third company, and for a while it looked promising, but the company ultimately decided that they didn't have the capacity to complete the questionnaire. However, we are hopeful that, with more time to prepare, they will consider participation in 2022. We will be in touch with them to encourage them to get involved.

1. ShareAction | Workforce Disclosure Initiative
2. https://api.shareaction.org/resources/reports/Workforce-Disclosure-2020.pdf pg 9
3. https://api.shareaction.org/resources/reports/Workforce-Disclosure-2020.pdf pg 17
4. ShareAction | Workforce Disclosure Initiative

Analysis on the 2021 campaign shows that the WDI has continued to gain more corporate reporters annually: 173 companies participated in 2021, up 23% on the previous year.[4] Initiatives like the WDI take time to scale up and we look forward to working with the WDI team again in the year ahead to help boost corporate participation further.

Written by
Ita McMahon

POLICY & ESCALATION

Read more about how Castlefield have worked with the Healthy Markets Initiative to engage with Unilever about its sales of 'healthier' products.

COLLABORATIVE ENGAGEMENT: SHAREACTION'S HEALTHY MARKETS INITIATIVE

Castlefield have been long-standing signatories to ShareAction's Healthy Markets Initiative. This collaborative engagement initiative unites investors and asset owners under the common goal of addressing the obesity crisis.

Unilever Engagement

Unilever are at the forefront of many sustainability topics and at this year's AGM "acted on climate" putting a long-term strategy towards net zero to a shareholder vote. The company wants to reduce its emissions early to remain competitive as a business in anticipation of increasing carbon pricing globally. This is not surprising from a company that aspires to be a global leader in sustainable business and is actively engaged on many topics across the whole sustainability spectrum.

In terms of nutrition and health, achieving progress towards a healthier product portfolio has been slower. Unilever ranked second on the 2018 Access to Nutrition Index of major global food and drink manufacturers having been judged to have a robust and comprehensive strategy covering most aspects of nutrition and health.[1] Paradoxically, while its nutrition policies may be market leading, the company's product portfolio and associated sales continue to be predominantly linked to its least healthy food and drink products. The same ATNI ranking showed that only 10% of Unilever's global food and drink sales derived from healthier products.[2]

Through increasing the proportion of healthy products in their portfolio, and focusing their marketing activities to drive healthy sales, food and drink manufacturers have a significant opportunity both to improve the population's health and to future-proof their business.[3]

AGM Question

At this year's AGM, Castlefield, in collaboration with ShareAction, EQ Investors and Polden Puckham Charitable Foundation, posed a question to Unilever's Board to develop a long-term plan to ensure the majority of its sales are derived from healthier products in the future. The Board responded to our questions, telling us that their Future Foods ambition will see the company double the number of products delivering positive nutrition globally by 2025. They also intend to continue to lower calorie, salt and sugar levels across the existing product range.

Shareholder Resolution

However, this was not the end of our engagement with Unilever on this topic and following further meetings with the company, in collaboration with ShareAction and other shareholders we have co-filed a resolution at the company's AGM for 2022. The resolution, if it passes a shareholder vote at the meeting, would require Unilever to increase disclosure about their sales of 'healthier' products,[4] as well as set targets for 2030 with annual progress reports. We believe that this transition towards increasing revenues from healthier products is essential for the company's long-term success as well as being a critical way in which Unilever can positively impact their consumer base.

1. https://accesstonutrition.org/index/global-index-2018/scorecards/unilever/
2. Ibid
3. ShareAction. A Healthy Investment: The Importance of Prioritising Health in the Food and Drink Manufacturing Sector. July 2020.
4. Classified as healthier in accordance with government-endorsed nutrient profiling models.

SHAREHOLDERS CALL ON UK GOVERNMENT TO TAKE ACTION ON NATIONAL FOOD STRATEGY'S RECOMMENDATIONS FOR PROMOTING SUSTAINABLE FOOD SYSTEMS

Linked to our work with the Healthy Markets Initiative, we have also become signatories to an open letter addressed to the UK Government calling for action on the National Food Strategy's recommendations on creating a healthier and more sustainable food system.

Institutional investors representing £3.8 trillion in assets under management have signed the letter supporting mandatory reporting of nutrition and sustainability metrics. The investor coalition are urging the UK Government to demonstrate clear leadership and ambition in its whitepaper response to the National Food Strategy's recommendations for promoting a healthier and more sustainable food system in the UK.

This group, led by Rathbone Greenbank Investments, and in collaboration with The Food Foundation and Guy's & St Thomas' Foundation, believes that well-designed regulation can create an essential enabling environment for businesses seeking to build long-term thinking and sustainability into their business models. In particular, mandatory reporting would help to increase the comparability of data on food businesses' targets, commitment, and progress.

Although some businesses are reporting on healthy and sustainable food voluntarily, there is a notable lack of consistency in how metrics are being reported and some sectors are further behind. For example, analysis from the Food Foundation shows that while five out of 11 UK supermarkets have now set targets for reporting on healthier food sales targets, only two disclose the percentage of their protein sales that come from animal versus plant-based sources: a shift that is urgently needed for the UK to meet net zero targets.

ENGAGEMENT CASE STUDY: INSPIRATION HEALTHCARE SITE VISIT

After a long period of digital meetings with our investee meetings over Zoom or Microsoft Teams, we made our first physical site visit of 2021 at the beginning of December. On a bright, cold winter morning we made our way to London to visit Inspiration Healthcare's site in Croydon.

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 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.[1]

The site we visited was that of SLE Ltd, a business acquired by Inspiration in 2020. During the visit, we saw demonstrations of two key products. The first was the most recent model of neonatal ventilator, the SLE 6000 (see image right). The SLE 6000 is one of the most specialised and versatile ventilators available and can be used on the very smallest of patients. The second was the company's LIFESTART™ unit (see image right), which is a neonatal bedside resuscitation. The company's CEO, Neil Campbell, explained that the device allows medical staff to make use of the benefits of Optimal Cord Clamping (improved placental transfusion and smoother cardiovascular transition).[2] The LIFESTART™ can be easily positioned close to the mother, which allows for the infant's airway to be supported on the warm platform, without requiring the umbilical cord to be cut.

The SLE 6000 (left) and the LIFESTART™ (right)

We were also given a tour of the site by management, which allowed us to gain an insight into the skilled work of their technical staff and the support service that Inspiration can offer its customers.

In the near future, the management team are due to move to a new site a few minutes away from the one we visited. They were able to clearly explain their rationale and the improvements and efficiency benefits that doing so would bring to the business while we viewed the current layout.

1. https://www.unicef.org/vietnam/press-releases/world-prematurity-day-15-million-preterm-born-babies-worldwide-need-strong-voice
2. https://www.inspiration-healthcare.com/products/neonatal-intensive-care/resuscitation/lifestart

We also took this opportunity to ask the company about their climate targets and their approach to Net Zero. We were pleased to hear that the company offers electric or hybrid vehicles for those employees requiring company vehicles and that Inspiration Healthcare is also taking the opportunity of moving site to ensure that their new facility is as environmentally efficient as possible. In terms of Net Zero, we were told that this is very much on the company agenda and is also very important for their customers. For example, NHS Scotland has recently committed to becoming Net Zero by 2040.[3] Management was confident that they would be able to deliver Net Zero for their own business by this deadline.

Overall, it was a great opportunity to visit the site and have a chance to meet the management team in person. We value these types of opportunities to build a relationship with management teams and believe that is helps to build our credibility when engaging with the company into the future. Our ability to see the different stages of production provides much more granular insight into the company's activities than it is often able to convey in a video call. We look forward to being able to see Inspiration Healthcare's new site in 2022.

Written by
Amelia Overd

3. https://www.gov.scot/publications/nhs-scotland-draft-climate-emergency-sustainability-strategy/

ENGAGEMENT CASE STUDY: CVS GROUP

Castlefield's David Elton discusses how mental health challenges affecting the veterinary industry are being addressed by investee company, CVS Group.

! Sensitive Topics Discussed: Mental Health and Suicide

By and large, the shares of companies involved in veterinary services and pet products have performed strongly over the past couple of years. As most will be aware, often with firsthand experience, there has been a significant rise in pet ownership since the beginning of the pandemic. Many of us, now able to work from home, have taken the opportunity to welcome a four-legged friend. Between March and September of 2020, close to 5.7 million new pets were purchased in the UK according to the insurance firm, Direct Line.[1] It's not a surprise to see that studies have shown that pet ownership helped to combat stress and loneliness during the first lockdown.[2]

However, the rise in pet ownership is not all good news for the animal health industry. While increased demand is a positive driver for growth when we consider an investment opportunity, it is crucial not to overlook the human impact of this boom in pet ownership. The veterinary industry reports a higher-than-average suicide rate of around four times.[3] The career is a vocation for many, and that dedication often results in a poor work-life balance in what can be a high stress environment. The UK is a nation of animal lovers and vets can be faced with animal owners venting their worries and frustrations. A survey from the British Veterinary Association (BVA) found that 57% of vets in clinical practice had felt intimidated by clients' language or behaviour.[4]

Considering this, we contacted CVS Group, a holding in our Castlefield B.E.S.T Sustainable UK Smaller Companies Fund, which operates over 500 veterinary practices in the UK, to hear more about its approach to mental health and wellbeing across the company as well as any specific schemes it had in place to support their staff. We were also interested in their views on how Brexit has exacerbated the existing issue of staff shortages (in recent years over half of the vets registering in the UK were from EU countries).[5]

In response, we were pleased to be offered a call with CEO Richard Fairman, to discuss our questions and the topic more broadly. During the call Richard firstly provided some additional context around the reasons that veterinary suicide rates are high. Regarding the specific initiatives CVS provides to support its staff and protect their mental wellbeing, he explained they had formed a wellbeing committee three years ago which comprises executive management, human resource representation and vets, chaired by Richard himself. In addition, the Group have trained over 300 mental health first aiders, have a mental health helpline, and signed the "Time to Change" pledge (a national campaign to tackle the stigma and prejudice associated with poor mental health in the workplace). Richard also explained that the Group had introduced regular checks-ins with staff where the first part of any discussion should be about the colleague, welfare, and clinical care rather than other, perhaps more traditional, measures of performance.

1. https://www.ft.com/content/1f4ec164-56c9-4654-a59a-c74c027bc184
2. https://www.york.ac.uk/news-and-events/news/2020/research/pets-survey-lockdown-loneliness/
3. https://www.thetimes.co.uk/article/suicide-rate-four-times-higher-among-veterinarians-vqklhvdw7
4. https://www.bva.co.uk/news-and-blog/news-article/vets-report-steep-increase-in-levels-of-intimidation-as-owners-vent-frustrations-during-covid-19/
5. https://committees.parliament.uk/writtenevidence/23115/pdf/

On Brexit-related staff shortages, Richard commented that this was less of an issue now than it was 3-4 years ago, although he did note that there has long been a shortage of vets in the UK. However, with more veterinary schools in the UK now, and several new ones due to open in the next few years, this should increase numbers and hopefully help to alleviate shortages in future. As well as this, CVS have been lobbying for veterinary nurses to have a greater level of flexibility in what they are permitted to do. Richard explained this hadn't really moved on in years; for example, although nurses can be highly skilled in anaesthesia, they are prohibited from initiating or monitoring this without direct vet supervision. This is now being reviewed by the regulatory bodies and, although change may take some time, in the medium to long-term it could also help industry staffing issues as well as creating even more rewarding careers for nurses and vets alike.

It is clear CVS recognises the issue and the specific challenges the industry is facing, while there is a lot the Group itself is doing to help support its staff, which we were impressed with. The response from Richard personally was also telling and it is clear he is very highly motivated to ensure that staff mental health is a priority within the Group and its culture. It is always encouraging to us to see strong ownership of such an important issue come from the very top of the organisation.

Written by
David Elton

"During the first phase of the pandemic, we were very keen to understand how companies were responding in relation to their workforce."

Rory Hammerson

Partner, Investment Management

ENGAGEMENT CASE STUDY: TELEPERFORMANCE

During the first phase of the pandemic, we were very keen to understand how companies were responding in relation to their workforce and interpret the corporate licence to operate through retaining staff and protecting jobs where possible despite the enforced shut down of the global economy.

Teleperformance, the French-listed support services business, was one company which has performed very well during the pandemic. The company is a leading global group in support services, serving as a strategic partner to the world's largest companies in many industries. The Group's 420,000 employees, based in 88 countries support billions of connections every year in over 265 languages and over 170 markets in a shared commitment to excellence as part of the "Simpler, Faster, Safer" process.[1]

One of the main specialities of the group is call centres. As companies shifted their business models away from the office, Teleperformance grew its global network, adding jobs during a time when most companies were cutting their workforce. We are aware of the nature of call centre work and the risks faced by employers over employee rights, the level of unionisation of staff and the commercial pressures faced by all stakeholders. We were not pleased, when allegations appeared in late 2019 over the treatment of workers in Le Monde, The Guardian and the FT. Photos were released appearing to display poor conditions of call centre workers in the Far East. The company refuted these claims as wholly wrong. A powerful trade union organisation had made these accusations and it took a couple of years for the OECD to look into the allegations and to wholly dismiss these claims.

We re-engaged with Teleperformance in the aftermath of the findings. It appears there had been a disagreement between the company and the union management over a global framework agreement covering different geographies. Clearly unions will want to work alongside companies who are growing and like Teleperformance, who are adding tens of thousands of employees to their books each year – in many ways a symbiotic relationship. If a disagreement happens, it's possible for political issues to cloud the real issues. We were gratified to hear that Teleperformance confesses to certain elements which cause tension.

Local companies in 83 countries[2] are run from a very local perspective. Cultural adaptations to local habits and cultures lean much more toward local design with specific tools for social dialogue. In general, unions like to sign a framework contract which serves clients in between 10 and 15 markets globally.[3] The living wage is specific to each country and Teleperformance releases and computes data for every country. The company provides over and above the living wage in 95% of the countries in which it operates.[4] In Columbia, for example, the company pays twice the living wage, and in France the staff turnover rate is incredibly low compared to competitors.

We also were pleased to hear how Teleperformance is taking on board the five recommendations made by the OECD despite having been discharged of all fault. Running a global company represents huge challenges and we don't expect perfection. What we do want to see is a curious attitude to challenge and an openness to listen to ideas for improvement. Teleperformance did not make its workers sleep in corridors during the pandemic instead of letting them return home, but someone did. We need to keep on top of how companies treat their staff, who provide the foundation of asset of any organisation.

Written by
Rory Hammerson

1. https://teleperformance.com/en-us/why-tp/about-tp/
2. Company Meeting 10/11/2021
3. Company Meeting 10/11/2021
4. Company Meeting 10/11/2021

ENGAGEMENT CASE STUDY: EDISTON PROPERTY REIT

Voting is an important responsibility for any shareholder and can be an effective way to make our voice heard. Read here about how we considered non-standard remuneration practices at one of our investee businesses.

Held in our Castlefield Real Return Fund, Ediston Property is a UK-listed Real Estate Investment Trust which invests in a diversified portfolio of UK commercial properties. This is overwhelmingly invested in retail warehouses, with the balance of approximately one-quarter of the portfolio invested in regional office and leisure assets.

When we vote at company AGMs, as far as is practical, we seek to notify management teams when our voting guidelines lead us to vote against management recommendations. When we came to vote at Ediston Property's AGM, we were concerned to note some non-standard remuneration practices which were not in line with the UK Corporate Governance Code's recommendations for investment trusts.

In most circumstances, we would expect to see non-executive directors (NEDs) remunerated by a fixed fee, with no additional payments or share awards. This is designed to allow the NEDs to sit on the Board of Directors without the pressure of financial incentives that might compromise their independent oversight of the management team. In this case, we saw that one NED, the Senior Independent Director (SID) and Chairperson of the Audit Committee, had received additional compensation on the basis that he was performing advisory services for the company. Whilst we recognised the value that the NED brought to the Board in terms of his skillset and expertise, we were concerned that this advisory relationship would compromise his independence, which was particularly important given his roles as SID and with the Audit Committee, with the latter advised to be comprised of only independent directors by the Corporate Governance Code. Therefore, we opted to vote against the remuneration policy at the AGM to reflect our concerns about the additional payments made.

> "When we vote at company AGMs, as far as is practical, we seek to notify management teams when our voting guidelines lead us to vote against management recommendations."

We subsequently wrote to the Chairman of the Board to notify him of the rationale for our vote. We believe it is important to be responsible stewards of assets and hope that by sharing the reasons for our voting, we can provide insight into investor sentiment and influence future decision making.

The Chairman responded quickly to our letter and offered a call to provide us with the company's rationale about the issues that we raised. He stressed that their main concern when making this arrangement was value for shareholders. The NED in questions was able to support the company and had been putting in a significant amount of time above what had been required, and indeed expected, of the other NEDs. This was in part to support the administration and investor relations functions, for which the investment manager of the REIT was no longer being paid for. The Board felt that this additional contribution was not being appropriately reflected in his remuneration and so had opted to incorporate this extra compensation amount this year rather than simply increasing his salary to avoid adding more cost over the long-term. The Chairman added that they did not believe that this arrangement impacted the NED's independence and had consulted their lawyers and brokers who agreed that it was an appropriate way to address the extra time commitment being made. He also mentioned that the Board were considering the appointment of the Senior Independent Director role in light of this.

We were reassured that this apparent deviation from the Corporate Governance Code had been considered in detail and that the decisions regarding remuneration were made with the best interests of shareholders to the fore. However, we still retain some concerns about the independent status of the NED and will be looking to see this addressed in future as the composition of the Board develops.

Written by
Mark Elliott

ENGAGEMENT CASE STUDIES: NON-EQUITY

COMPASS GROUP

Our Castlefield fund range does not invest directly in Compass Group. However, our Castlefield B.E.S.T Sustainable Portfolio Growth Fund invests in Sarasin's Food and Agriculture Opportunities Fund which does indeed hold a stake in the catering and support services firm. A Compass Group subsidiary, Chartwells, had been in the press at the beginning of the year over allegations that it had been distributing inadequate and incomplete free school meals packages to vulnerable families.[1]

We contacted Sarasin and to their credit they emailed a detailed response to us within the hour. Their response outlined conversations that Sarasin had with the company. Compass estimated that 2% of the parcels distributed had shortages and issues which occurred as a result of a variety of factors. For example, the company did not receive notice of the lockdown and had to mobilise quickly. In addition, they outsourced distribution to the local level, but this meant that there wasn't the usual quality assurance that they'd had in place for previous lockdowns (where parcels had been created centrally). It appeared that in the case of the incomplete boxes, the chef had insufficient supplies but decided to send out incomplete boxes so that the recipient families would have access to some food. Compass quickly moved to require all food packages to be photographed before being distributed. Photos were sent to Compass centrally to ensure that standards were maintained. Food was also being ordered centrally to ensure that the correct items are being sent to families. Senior management and the board were committed to ensuring that no further problems arise.

Sarasin assured us that the situation would be monitored closely, as did we, to ensure that these standards were upheld. Given how important these food packages are to so many families, there was very little margin for error.

GOLDEN LANE HOUSING

During 2021, we engaged with the management team of Golden Lane Housing Ltd (GLH). GLH is a registered charity in its own right, although it is also the wholly owned property-management subsidiary of registered charity Mencap. GLH has previously been active in raising funds from bond investors with the specific aim of further developing the portfolio of properties owned and managed by the charity.

There is significant shortfall in the UK of properties suitable for those living with a learning disability. Many reside with elderly parents or in unsuitable residential institutions, and by working directly alongside Mencap, GLH has been successful in providing the opportunity for those with learning disabilities to live "in the right house, in the right place, with the right support". At Castlefield we invested in the first bond launched by GLH back in 2014. It was therefore with great interest that we met with the GLH team in mid-2021 to discuss with them the potential to invest in a new bond that they were launching.

As a measure of GLHs progress since our initial conversations back in 2014, the GLH property portfolio now consists of just over 1,200 properties, providing over 2,300 tenancy units. This compares to 700 owned and leased properties providing 1,320 tenancy units in 2014. Not only has the absolute scope and scale of GLHs operations increased over that time, by working closely with Mencap, GLH is able to provide ancillary services such as the specialist fit-out of its properties that make them especially suitable for their tenants. In the wake of Grenfell and the increased scrutiny that much social housing is coming under, the provision of safe, appropriate accommodation that can be managed by a trusted partner is vital in securing the future of those with learning disabilities in the UK.

1. https://www.theguardian.com/education/2021/jan/12/not-good-enough-marcus-rashford-condemns-free-school-meal-packages

NEW HOLDINGS

Education

NEW HOLDING: TRIBAL GROUP

Constituent of the Castlefield B.E.S.T Sustainable UK Smaller Companies Fund

Tribal Group is a leading provider of software and services to the international education market with a mission to empower the world of education. Its core business is the delivery of Student Information Systems meeting the evolving needs of the higher education sector and their customers range from private, public and alternative education institutions which have anywhere between just 50 students up to 200,000 students across multiple sites.[1]

The education sector globally is facing many challenges that Tribal believes it can address. Ensuring a high-quality experience with increased digital interaction has become a critical strategy for the sector to engage with students but often, institutions are saddled with complex, legacy digital ecosystems which are hard to change and require specialist skills to administer. Tribal's product portfolio consists of market-leading, cloud-enabled Student Information Systems and a broad range of Education Services, which encompass the student journey from recruitment to graduation and cover institutional requirements such as quality assurance, peer review, improvement and inspections, and institution benchmarking and analysis.

The company has a well-established global presence and is rich in intellectual property, whilst it plans to build from this position of strength by expanding its addressable market and geographic reach through internal development and M&A, which should further increase quality of earnings and improve margins.

Resource Efficiency

NEW HOLDING: SMART METERING SYSTEMS

Constituent of the Castlefield B.E.S.T Sustainable Income Fund

Smart Metering Systems (SMS) is at the forefront of the roll-out of smart meters in the UK and is active in the transition to smart and low-carbon energy systems. Established in 1995 and based in Glasgow, SMS installs and manages smart meters and carbon reduction assets to facilitate effective energy management. It currently manages close to 4 million smart meters and other data collection assets.[2] Although the company now has a market capitalisation of around one billion pounds, it has always been AIM-listed.

SMS receives rental income from every operating smart meter it installs, which generates very stable but growing revenue streams. Operating in a very supportive regulatory environment, the company enjoys good operating margins from its core business, enabling it to pay an attractive dividend. There are good opportunities to expand recurring revenue, as SMS has an existing order book of over 2.5 million new meter points.[3] Scope for further capital growth is provided by SMS's other energy-related activities in Asset Funding and Asset Installation as well as future opportunities in big data.

With its focus on energy efficiency and carbon reduction, SMS has very good environmental credentials and it is already playing a major role within the UK's transition to sustainable energy and achieving the target of Net Zero. The company itself has set a target to be Net Zero by 2030.

1. https://www.tribalgroup.com/about-us
2. https://www.sms-plc.com/corporate/about-us/at-a-glance/
3. Smart Metering Systems, 2021 Interim Results

ESG IN INVESTMENT DECISION MAKING

SALE OF MENHADEN PLC

When we originally invested in Menhaden Plc, we believed it to be an attractive combination of listed and unlisted investments managed by a team seeking to provide long-term, patient capital. It was launched with an objective that tied in well with our investment process – to focus exclusively on renewable energy and resource efficiency technologies – and promised an interesting mix of growth exposure and some income-generating renewable infrastructure holdings. Unfortunately, that initial premise turned sour and the management team diverged from their stated strategy, ultimately making investments that we would not consider to be sustainable in nature. Decisions were made that entailed a much higher level of asset-concentration and risk than was believed to be the case, with disappointing results from some underlying investments; the upshot was that the shares fell sharply and quickly moved to a large discount to what the assets were calculated to be worth.

We spoke with the team on various occasions to outline these concerns and while they offered apologies and their rationale for having deviated from the stated strategy, our focus was squarely on being able to exit the investment at an appropriate level for our investors. However, balancing these concerns against the significant discount to the Net Asset Value (NAV) at which the shares were trading meant that we couldn't justify selling immediately and opted to retain the holding in the short term. It has taken some time, but with the share price having recovered steadily in the intervening period, we completed a sale at a price that we felt was much more reflective of the true value of the underlying investments.

This episode offers a salutary lesson – that executing on a business plan or investment strategy needs to be judged on the accumulated results. Our process of engaging and raising concerns as we measured the progress of the group against their stated strategy provided a useful feedback loop. Ultimately, however, the difficulty in bridging the gap between our two viewpoints proved insurmountable and we used the ultimate sanction as shareholders and exited the investment.

Principle 9 9

Principle 11 11

PENNON

We have been long-term holders of Pennon in our Castlefield B.E.S.T Sustainable Income Fund. Pennon operates in two main areas – firstly, operating the merged water company of South West Water and Bournemouth Water, which provides water and wastewater services to a population of c.1.7 million people, and secondly, providing water retail services for business customers.

Over the past year, we have seen increasing concern about the quality of wastewater services across the UK and have engaged with the company on the issue. It is an issue that is affecting the entire sector, and we feel that there is a limited window for both the UK government, and companies operating wastewater facilities, to commit resources to tackle the issue of pollution.

Unrelated to these concerns, Pennon had received and accepted a substantial offer for its Viridor waste collection and treatment business of c.£3.7bn from US private equity firm Kohlberg Kravis Roberts (KKR).[1] Following the completion of the sale, Pennon opted to reduce group debt and acquire Bristol Water, with the balance of the proceeds of c.£1.5bn distributed to shareholders by way of a special dividend during the summer of 2021.[2] This dividend, equating to £3.55 per share represented nearly one third of Pennon's market capitalisation at the time. It was in fact accompanied by a share-consolidation whereby Pennon shareholders received two new shares for every three previously held. Such tools are often used to maintain share-price continuity over time when corporate restructurings take place. This provided a natural point for us to reconsider our allocation to the remainder of the Pennon business within our portfolios. Rather than acquire fresh shares in the market, and "re-weight" the holding back up to the previous allocation, we opted to retain the holding at the lower position. These changes have left Pennon as a much more focused investment in the UK regional water utility market, and with arguably fewer health & safety concerns following the disposal of the Viridor waste business. However, our growing concerns about the frequency of "emergency" wastewater discharges into UK water courses has caused us to defer making any near-term additional investment. We will continue to monitor this situation while we consider whether to retain the holding through 2022 or exit entirely. The quantification of ESG risks when investing in and allocating to businesses is not an exact science however we felt that the accumulation of risk versus near term reward did not justify an incremental investment at this time.

1. https://www.pennon-group.co.uk/media/news/proposed-sale-viridor-%C2%A342-billion-kkr
2. https://www.pennon-group.co.uk/media/news/proposed-special-dividend-and-share-consolidation-and-changes-articles-association

FINANCIAL REPORTING COUNCIL: A YEAR IN REVIEW

As thoughtful investors, we're committed to collaborating with other industry participants to help raise standards across our industry. To that end, I've been a member of the FRC's Investor Advisory Group (IAG) since it was established in June 2018 and, over the last three-and-a-half years, I have been lucky enough to contribute in a small way to some of the FRC's most important non-audit work, such as the Future of Corporate Reporting project and advising on the formulation of the new Stewardship Code. As an investment management team, we also take part in roundtables and other consultations organised by the FRC, plus we support the FRC Lab in its work. We feel it is important to help out on these projects for the good of the whole industry and it also helps us have our say as a smaller investment manager.

Despite the trying circumstances again this year with all meetings conducted remotely, we have still had plenty of interaction with the FRC. The IAG held quarterly meetings and an important agenda item over the course of the year was the BEIS Consultation document, "restoring trust in audit and corporate governance."[1] The report and the ensuing consultation helped strengthen the FRC's transformation programme, taking the organisation further towards the creation of ARGA - the Audit, Reporting and Governance Authority. We were also pleased to see the FRC shine a spotlight on "Creating Positive Culture" within companies by publishing a report on the topic in December.[2]

Over the course of 2021, we have been involved in several formal stakeholder consultations including those on Interim Financial Reporting, the Annual Review of Corporate Reporting, the "Say on Climate" questionnaire and the work on Board Diversity and Effectiveness. In addition, we always enjoy working with the team at the FRC Lab and the projects to which we've contributed in 2021 include those examining Risks and Uncertainties, Digital and Data Risk, and the report on Stakeholders, Decisions and Section 172, in which we were a listed participant.

In 2022, as part of the FRC's transition to ARGA, the Investor Advisory Group is being superseded by a larger and wider-ranging Stakeholder Insight Group, a new panel that will represent interested parties such as preparers of accounts, investors, audit committee chairs and civil society groups. We still expect to be involved in stakeholder engagement as the FRC makes further strides towards its goal of becoming ARGA.

Written by
David Gorman

1. https://www.gov.uk/government/publications/restoring-trust-in-audit-and-corporate-governance
2. https://www.frc.org.uk/getattachment/bed9e8e2-0d24-448a-a530-ed3c71fdf9a7/FRC-Creating-Positive-Culture_2021-December.pdf

VOTING

VOTING: Q4

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.

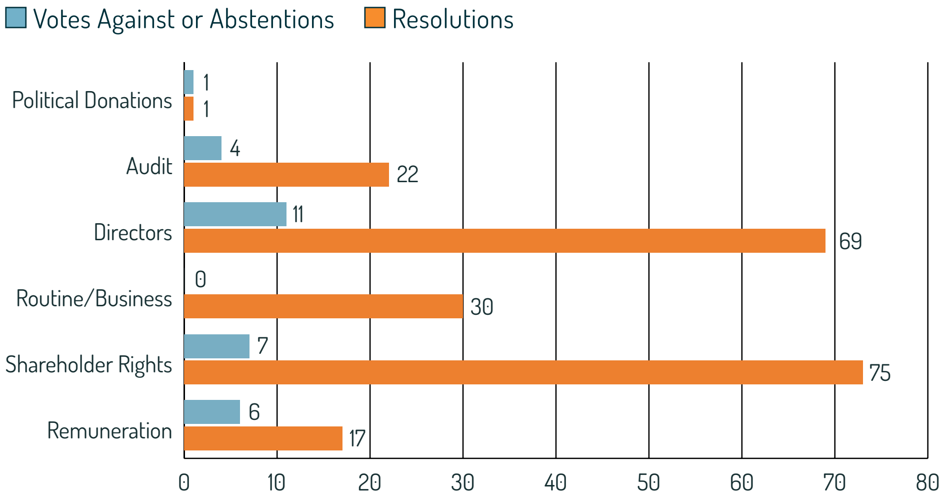
During the quarter, we voted at 29 meetings hosted by our investee companies, with a total of 214 resolutions.

RESOLUTIONS

Number of resolutions where votes were cast For	185	86.4%
Number of resolutions where votes were cast Against	21	9.8%
Number of resolutions where votes were Abstained	8	3.7%

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.

RESOLUTIONS DURING THE QUARTER BY CATEGORY AND HOW FREQUENTLY WE VOTED AGAINST OR ABSTAINED:



VOTING CASE STUDY: AVAST PLC

Avast is a global leader in the consumer cybersecurity market with over 435 million active monthly users across mobile and desktop devices. Its highly rated software protects users from attacks such as ransomware (used for extortion), identity theft and socially engineered malware (designed to covertly collect consumer information).

In August, the Prague-based company's Board of Directors recommended a merger offer from NortonLifeLock Inc., which would value the business at over $8bn. While this represented a premium of 20.7% to the share price prior to the announcement, we, along with other shareholders, felt that this offer undervalued the company's future growth prospects and was not sufficiently compensating current shareholders.[1]

We spoke to a member of Avast's Board of Directors about our concerns over the price of the deal, along with the apparent lack of a UK-listing for the combined entity, which we saw as a further disadvantage for UK-based funds and direct shareholders given that the offer entitled shareholders to both cash and stock. He was keen to assure us that the Board had seriously considered their recommendation of the bid and felt that the operational benefits and additional investment in R&D provided with the combined businesses would justify the move. The Board also saw the lack of prevailing counter bids as confirmation of their view on price.

At the meetings convened on the 18th November, we opted to vote against the ratification of the bid as we maintained our view that the deal undervalues Avast and is therefore not in the best interests of shareholders. However, despite many market commentators noting that the deal appeared to be 'cheap', both resolutions passed with over 94% support.[2]

1. https://www.thetimes.co.uk/article/avast-takeover-price-is-too-cheap-warns-top-shareholder-5sggpdf0r
2. https://www.investegate.co.uk/article.aspx?id=20211118181018893OS

VOTING: ANNUAL

Between the 1st January 2021 and the 31st December 2021, we voted at 172 meetings held by our investee companies. This amounted to 2,262 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. Our voting policy applies across all geographies and asset classes for which we have voting opportunities.

RESOLUTIONS

Number of resolutions where votes were cast For	1814	80%
Number of resolutions where votes were cast Against	404	18%
Number of resolutions where votes were Abstained	44	2%

RESOLUTIONS DURING THE YEAR BY CATEGORY AND HOW FREQUENTLY WE VOTED AGAINST OR ABSTAINED:

REMUNERATION

It is unsurprising that remuneration remains the voting category in which we most frequently vote against the resolutions put forward by company management and the Board of Directors. Our voting policy sets out clear limits for what we deem to be excessive pay for executives, a policy we believe is uncommon amongst asset managers.

For 2021, we amended the cap we had implemented for variable pay awards made to executives within our policy from 300% of salary to 200% of salary. While we would agree that these numbers may still sound high when compared to the remuneration of the majority of the population, we believe that this cap shows a strong stance when we take into account that we estimated that for 2018-19, the median maximum opportunity for CEO annual bonus payments in the FTSE250 was c. 150% and the median face value for Long Term Incentive Plans (LTIPs),[1] which are in addition to annual bonuses, was c. 200%.[2] While these targets should in theory be very hard to achieve, far too often, we see high percentages of these awards paying out, leading us to have a maximum within our voting policy, which leads us to vote against these high awards.

One of the reasons we feel confident to challenge companies on 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 own teams using high levels of variable pay.

!

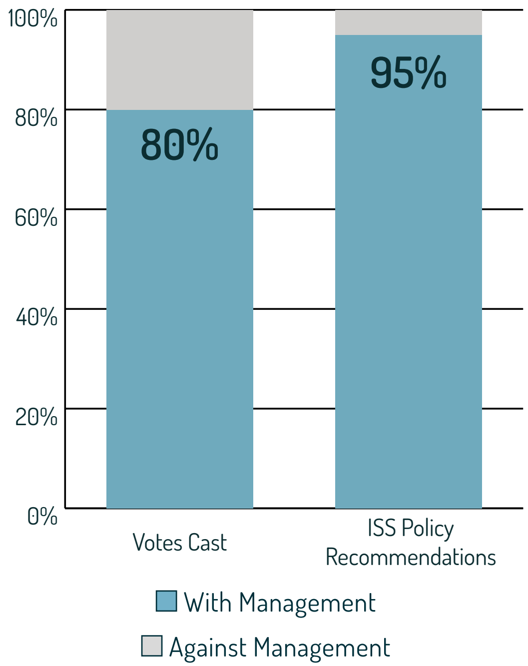
Our full voting history for 2021 and our Corporate Governance & Voting Guidelines can be found on the Castlefield website.

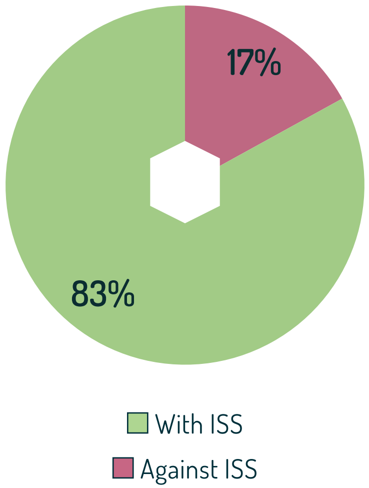
1. FTSE 250 Directors' Remuneration, FIT Consultants, August 2019, pg. 26
2. FTSE 250 Directors' Remuneration, FIT Consultants, August 2019, pg. 34

Principle 5 5 Principle 12 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 80% 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 17% of resolutions. Castlefield are active investors, and this extends beyond stock selection and into active stewardship processes.





SIGNIFICANT VOTES AGAINST MANAGEMENT

The 2018 Corporate Governance Code was updated to include a recommendation that when 20% or more of votes have been cast against the recommendations of the Board of Directors for a resolution, a company should explain at the time it reports the results of the meeting, what actions it intends to take to speak with shareholders to understand the rationale for investor dissent. This should be followed by an update within six months on the results of these consultations and the topic should be discussed in the subsequent annual report to summarise what impact the feedback has had on the decisions of the Board.

We welcomed the introduction of this recommendation and have seen an increase in requests for meetings from company directors in recent years. We consider this a positive result of our regular engagement with investee companies as in most cases we would not be at the top end of the shareholder register in terms of size.

PPHE Hotel Group is a holding in the Castlefield B.E.S.T Sustainable UK Opportunities Fund which saw a significant vote against the re-election of one of the Chairman of the Board of Director's Nomination Committee due to the composition of the Board not meeting the recommendations of the UK Corporate Governance Code. They also noted that some shareholders had opted to vote against members of the Remuneration Committee due to the lack of a vote on the company's Remuneration Policy. We voted against several resolutions at the company AGM for these reasons. We were pleased to speak with the company about our views and felt that the company did genuinely see the need for increased independence on the Board and were pleased to hear of plans to submit the 2022 Remuneration Policy to shareholder vote.

PURPOSE & GOVERNANCE

STEWARDSHIP CODE REQUIREMENTS

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
What is it?	An internal committee that oversees and implements Castlefield's stewardship activities	An external group that provides advice to Castlefield on stewardship issues
Who	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
When	Meets quarterly	Meets twice a year
Purpose	▪ To set and implement our stewardship strategy ▪ To make the Committee aware of emerging stewardship issues ▪ To define, re-evaluate and approve policies that the Committee has responsibility for, most notably our voting guidelines which are updated annually ▪ 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 ▪ Act as a sounding board on current or prospective holdings where the investment team has ESG concerns ▪ Consider investment themes presented by Castlefield co-owners to the Committee ▪ Advise on changes to the CIP voting guidelines ▪ Bring emerging ESG issues to CIP's attention.

STEWARDSHIP & ENGAGEMENT RESOURCE

All members of the team involved in investment decision making and related research are also involved in our stewardship and engagement activity. It is our philosophy that an integrated approach allows for the widest consideration of how our actions on behalf of our clients can best represent their views and have a meaningful impact.

For example, all of our voting activity is approved by the lead fund manager where the asset is held within our fund range and voting proposals are circulated to the entire investment team for their views.

In terms of how resource is managed, as all of our team are involved in this area, our capacity for our routine stewardship and engagement activity grows as our team does. However, we do acknowledge the growing need for increased reporting in many areas and will ensure that we dedicate adequate resource to meet the increased expectations and requirements of asset managers going forward.

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, we have been continuing our consideration of 'outcomes', both in terms of the impact of our investment portfolios and as a result of our engagement activities. These are topics that we will be looking to develop going forward and some of the initial findings, particularly regarding impact, can be found earlier in this 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 in November focused on our strategic stewardship and engagement planning for 2022, resulting in the identification of three priority areas: Climate change and alignment to Net Zero, workforce engagement and retention, and fair tax.

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.

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 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.

We conducted an effectiveness review with the External Advisory Committee during 2021 to reflect on its progress over the three years since its formation. The review found that committee members were satisfied with the how the committee operates but made some constructive suggestions, for example, reintroducing the fund manager presentations which were a feature of the committee when it was first established.

EXTERNAL ADVISORY 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

Lisa Stonestreet

Head of Communications and Charity Impact at the EIRIS Foundation.

"I am delighted to take the reins (...) of the ethical advisory committee and look forward to leading future sessions, discussing key topics of relevance to Castlefield Investment Management."

Rebecca O'Connor

Chairperson

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 rating 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, 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 takes into account the views of all involved in the voting process. 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. In 2021, we had a review meeting with our client relationship manager about the service and have also initiated conversations with alternative providers to ensure we are getting the best value services on behalf of our clients. At this time, we remain satisfied with our current provision.

During the year, we have enlisted the services of Impact Cubed in order to provide a third-party impact assessment of our B.E.S.T Sustainable fund range. Impact Cubed were appointed following an extensive assessment of available market options with multiple team members, including fund managers, involved in product demonstrations and introductions to provide as much scrutiny as possible over the quality of the output. This service will also be reviewed annually by the Stewardship Committee.

We do not have any service provider which conducts bespoke voting, or engagement on our behalf. All the services we use form inputs to our process, but are not the key determinant of our investment or engagement decision making.

VOTING POLICY

Castlefield seeks to vote at all company meetings for shares held within the Castlefield fund range. Where Castlefield Investment Partners acts as a discretionary investment manager for segregated client accounts, its terms of business also allow it to cast votes over shares held in nominee. Castlefield will exercise its authority to vote all shares in holdings common to the fund ranges and segregated accounts. In practice, this accounts for the vast majority of direct holdings within client accounts. Unless there are compelling reasons to the contrary, we will vote in accordance with our Corporate Governance and Voting Guidelines. These guidelines are based on the recommendations of the FRC's UK Corporate Governance Code, although in many instances we go beyond the Code's requirements and set more stringent expectations of the companies we invest in. They are updated annually by our Stewardship Committee and reviewed by our External Advisory Committee.

Any other voting activity undertaken by Castlefield is on a case-by-case basis, with consideration for the number of holders and size of overall shareholding. There is a process by which clients can request to override the voting decisions of Castlefield Investment Partners, which involves an administration fee and a pass through of the additional charges incurred from the relevant custodian where applicable. We have not received any voting requests relating to discretionary client accounts in 2021.

STOCK LENDING

We do not engage in stock lending.

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.

We are also involved in a number of collaborative engagement initiatives, which we believe to be an impactful way to engage with companies on specific topics. We are currently active participants in the following collaborative investor initiatives:

- ShareAction – Workforce Disclosure Initiative (WDI)
- ShareAction – Healthy Markets
- Access to Medicine Foundation
- 30% Club UK Investor Group
- Farm Animal Investment Risk & Return (FAIRR)
- Business Benchmark on Farm Animal Welfare (BBFAW)
- Carbon Disclosure Project (CDP)

OUR VOTING AND ENGAGEMENT 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 or management team of 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 related asset.

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.

In 2021, we commissioned external impact assessments of the B.E.S.T Sustainable fund range, and further information about the results of this assessment can be found earlier in this report.

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 lockdowns and as a result of homeworking, 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 was 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 was an active member of the FRC's Investor Advisory Group for over three years. Before it was incorporated into a larger stakeholder group, this Group had 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 acted as a conduit between the regulator and the wider market to help improve the flow of information and ideas throughout our industry. Although it is difficult to quantify the impact of our activity in this area, we know that we were the only asset manager with assets under £1bn with a place in the Investor Advisory Group and so were able to provide the perspective of a smaller asset manager on policy developments. We will seek to continue such work as and when opportunities arise.

With regard to systematic risks that we see within financial markets, our discussions have centred around the impact of coronavirus, data security, and climate risk. While we have discussed the impacts of coronavirus on our own business, and on those businesses we invest in, in some detail in our previous reports, we believe that this risk is likely to decline going forward as vaccination programmes are rolled out globally. Data risk remains a significant risk, particularly in the work-from-home environment. It is routinely reviewed by our Risk Committee at a business level and factors into our research on companies which hold or process confidential data. On climate, we have agreed a Net Zero target for both our own operations and for our investment portfolios, which is discussed earlier in this report.

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 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. We have conducted an exercise to map these responses to our screening policy to assess the areas most important to our client base.

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. Going forward, we will be providing a monthly disclosure of our voting activity, providing our voting decision and rationale for each resolution to increase the level of disclosure.

This report has also been reviewed by our compliance team and by the External Advisory Committee to ensure that our reporting is fair, balanced, and understandable. We have not chosen to subject the report to external audit as we believe that our internal capacity is sufficient to ensure the veracity of the information provided and that additional scrutiny would not add value to clients, whilst increasing the cost of our services.

DISCRETIONARY ASSETS UNDER MANAGEMENT (AUM)

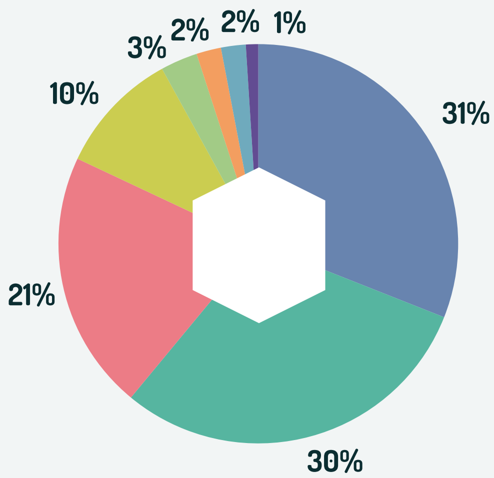
TOTAL DISCRETIONARY ASSETS UNDER MANAGEMENT (AS AT 31/12/2021)	£358.97M
Castlefield Fund Range	£188.82m
Segregated Client Accounts (excluding holdings in Castlefield funds)	£162.53m
Models (excluding holdings in Castlefield funds)	£7.62m

ASSET BREAKDOWN: SEGREGATED ACCOUNTS (INCLUDING HOLDINGS IN CASTLEFIELD FUNDS)

The majority of the assets within segregated client accounts are invested in funds, either those managed by Castlefield or third-party managers. The largest section of the pie chart (right) relates to Multi-Asset Funds, the majority of which relates to clients invested in our B.E.S.T Sustainable Portfolio Funds, which are themselves designed to broadly replicate two of our client investment strategies and hold a wide range of asset classes.

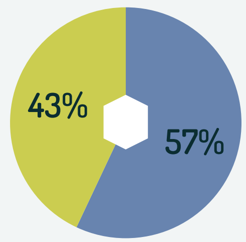
DISCRETIONARY AUM BREAKDOWN: CLIENT ACCOUNTS (EXCLUDING MODELS, INCLUDING CASTLEFIELD FUND HOLDINGS)

- Multi-Asset Funds
- UK Equities
- Global Equities
- Fixed Income
- Property Funds
- Other Assets
- Cash
- Infrastructure Funds



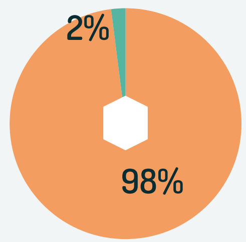
UK EQUITY BREAKDOWN: CLIENT ACCOUNTS

- Direct UK Equity
- UK Equity Funds



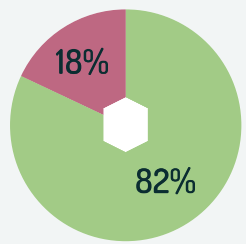
GLOBAL EQUITY BREAKDOWN: CLIENT ACCOUNTS

- Global Equity Funds
- Direct Global Equity



FIXED INCOME BREAKDOWN: CLIENT ACCOUNTS

- Fixed Income Funds
- Direct Fixed Income



CLIENT TYPE BREAKDOWN

At the end of the year, Castlefield Investment Partners managed close to 500 client accounts across our range of service levels. Charity accounts represented approximately 15% of active accounts and 28% of discretionary assets under management.

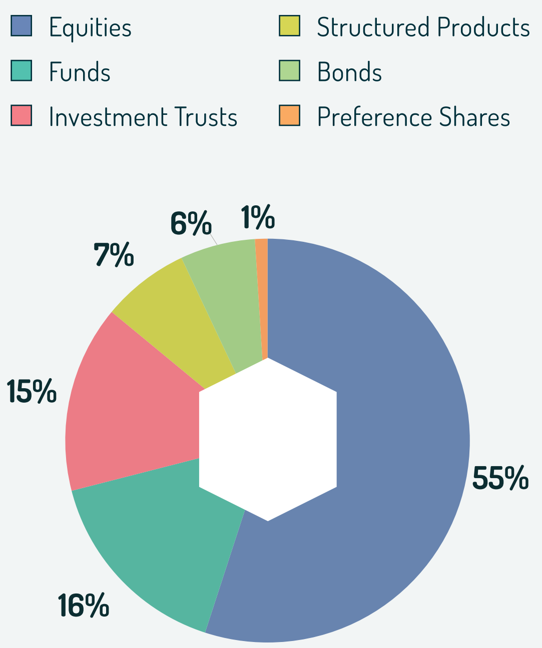
ASSET BREAKDOWN: CASTLEFIELD FUND RANGE

This chart (right) illustrates the breakdown of the holdings within the Castlefield fund range by asset class. In order to avoid double counting, any Castlefield OEICs held within the Portfolio Fund range have been excluded.

The majority of the assets within our funds are direct equities, in the UK and more recently Europe, with the launch of our 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 primarily relates to holdings in 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.

ASSET BREAKDOWN: CASTLEFIELD FUNDS



INVESTMENT HORIZON

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.

CONFLICTS

Our Conflicts of Interest policy is made available on our website here. 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.

While we typically have few conflicts directly relevant to stewardship, one conflict that we have managed during the previous years 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.

For the calendar year 2021, we do not believe that there have been any conflicts of interests that have impacted our investment process or stewardship and engagement activity.

ABOUT CASTLEFIELD

ABOUT CASTLEFIELD

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

We have a clear corporate purpose: we gather assets to do good. We want to be a trusted adviser and investment manager to people and charities who aim to make a world of difference. We do this by acting for charities, businesses and individuals that seek an outcome where business is recognized with the context of its environmental, ecological and social impacts.

C**reating** long term **sustainable** growth

O**wnership** - making EO matter

R**espect** and responsibility

E**ncouraging** **independence** and **innovation**

!

Castlefield has been listed as one of the Best Financial Advisors to work for in 2021 by Professional Adviser for the second year.

EMPLOYEE-OWNERSHIP

As an employee-owned firm, every one of our 59 employees is a co-owner in the business. A significant proportion of the company is owned by an Employee Share Ownership Trust which exists to benefit the past, present and future employees of the group. In addition, 100% of co-owners participate in the Share Incentive Plan which helps them to build a direct stake in the business.

Burden's Charitable Foundation, which runs a school for the visually impaired children in Burkina Faso, also holds an ownership stake in the business.

OUR CLIENTS

We provide services to charities and individuals that seek a good return on their investments without compromising on their beliefs or ethics. Our investment portfolios start from £125,000 and in addition to our single strategy funds, we also offer two portfolio funds that provide affordable access to responsible and sustainable investment.

2021: CASTLEFIELD HIGHLIGHTS

- **JAN:** Carbon literacy training for co-owners
- **FEB:** Give Back Group launched to instigate charity fundraising
- **MAR:** Mental health awareness month
- **APR:** Diversity and inclusion working group launched
- **MAY:** Step Challenge Fundraiser
- **JUN:** Employee Ownership Day
- **JUL:** Development work commences on school in Burkina Faso, supported by Burden's Charitable Foundation, a part-owner of Castlefield
- **AUG:** Hybrid and flexible working policies launched
- **SEP:** Annual client symposium; this year's theme COP 26
- **OCT:** Shortlisted for Green Finance and Good Money awards
- **NOV:** Winter charity fundraising campaign launched
- **DEC:** Development of first Diversity and Inclusion Report

OUR PEOPLE

We take a lot of time and care to recruit people that share our values, so we're delighted that Castlefield has been recognized by Professional Adviser as one of the best Financial Advisers to work for in 2022.

As an employee-owned business, we want to ensure that colleagues' concerns and ideas are heard. We do this through an annual employee engagement survey but also through our Co-owners' Council where each part of the business is represented. Staff retention is high: 69% of all our co-owners have been with the business for over three years.

We are a living wage employer and also ensure that our cleaning contractors are also paid the living wage.

In 2021, Castlefield submitted an application to become a support of the Greater Manchester Good Employment Charter.[1]

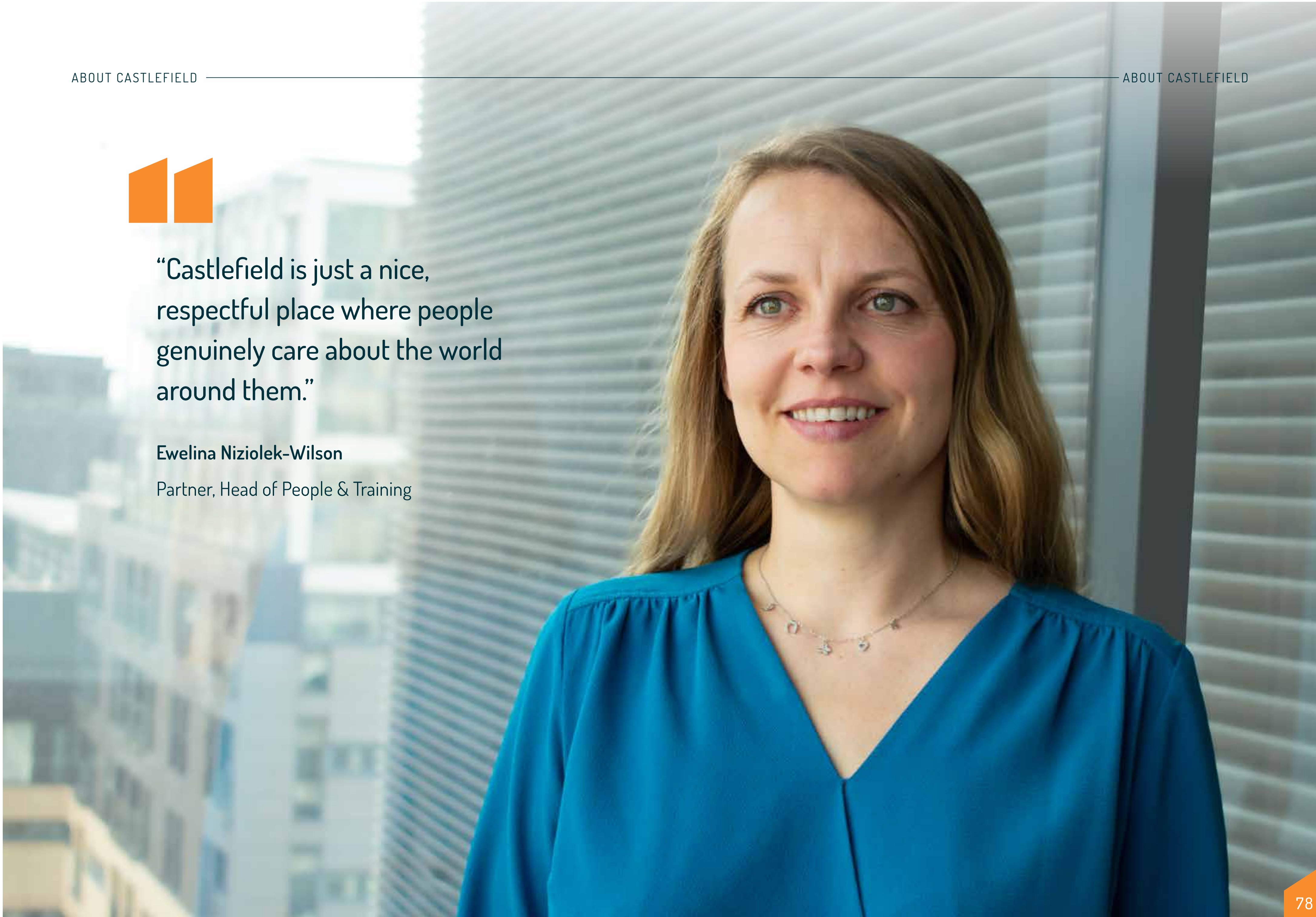
TRAINING

We ensure that all co-owners undertake 35 hours of continuous professional development (CPD) each year. This goes beyond the regulatory requirements for the financial services sector, which tends to focus on ensuring that individuals with significant responsibilities have undertaken extensive CPD.

Our in-house training programme, the Castlefield Academy, continued to run online training sessions in 2021, offering 25 sessions over the course of the year.

1. https://www.gmgoodemploymentcharter.co.uk/about/supporters/

ABOUT CASTLEFIELD



"Castlefield is just a nice, respectful place where people genuinely care about the world around them."

Ewelina Niziolek-Wilson

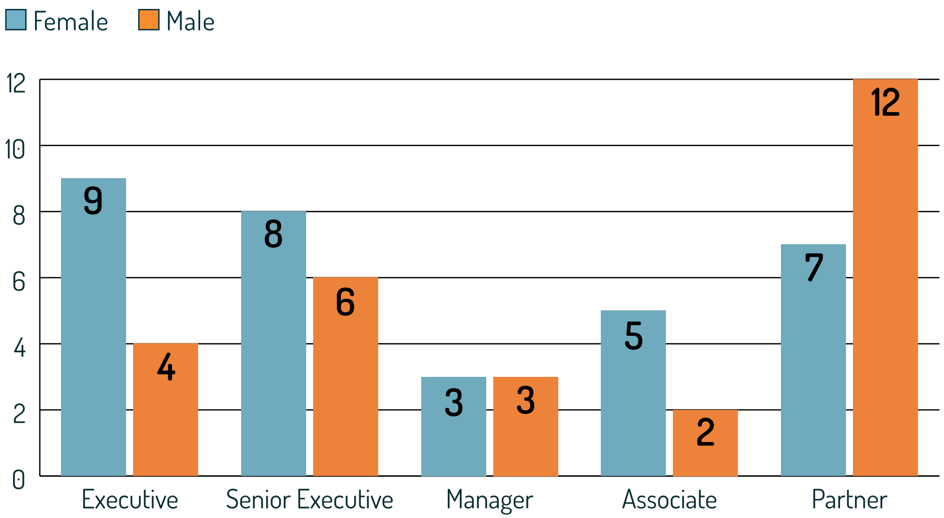
Partner, Head of People & Training

DIVERSITY

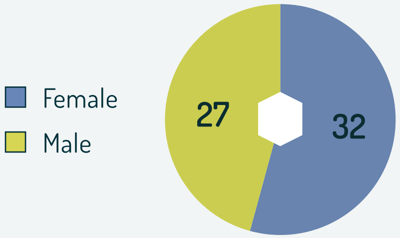
We carried out our first diversity and inclusion survey in 2021 and will publish our findings early in 2022. We strive to be a diverse organisation and our main success to date has been in gender diversity, where we have good female representation at all levels of the organization. We hope that the findings from the survey will help to inform our next steps in addressing other aspects of diversity, particularly around ethnicity.

In 2021, we also introduced a formal policy on flexible hours and hybrid (i.e. a mix of home and office) working as we recognise how useful these measures can be in helping parents, carers and others to juggle work and home life. 95% of co-owners have opted for a hybrid working arrangement and we expect a high level of home working to continue even post-pandemic.

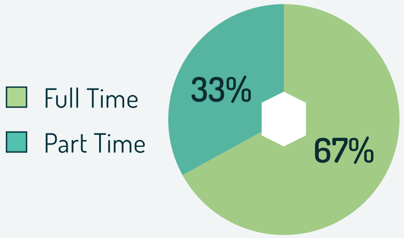
JOB ROLES SPLIT BY GENDER



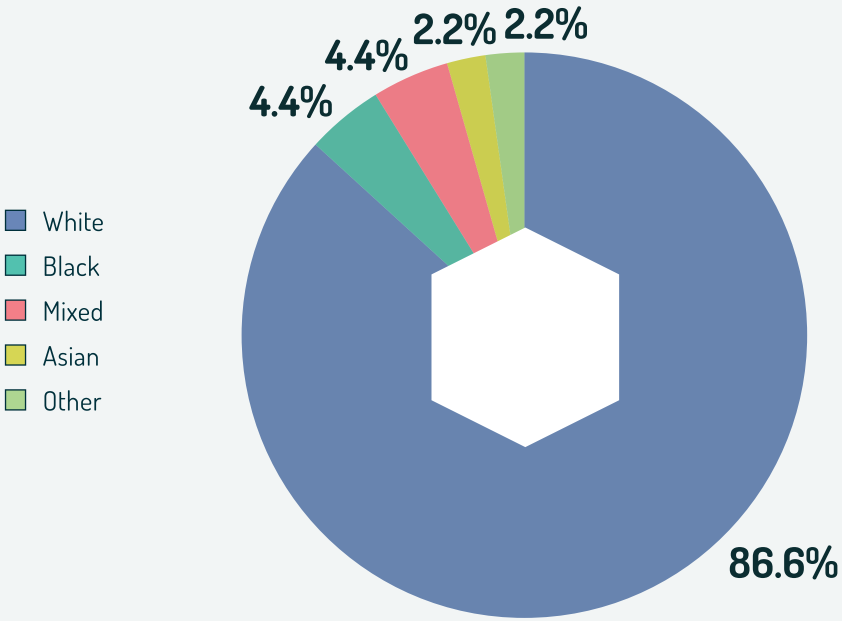
GENDER SPLIT



WORKING HOUR SPLIT



DIVERSITY SPLIT



ABOUT CASTLEFIELD

ENVIRONMENT

In 2021, we made a commitment to ensuring that our operations and supply chain is net zero by 2030. We also have ambitions to ensure that our portfolios are net zero by 2040. See page 20 for more details on the specific commitments. Since the onset of covid, many of our office-based environmental impacts have lessened – our paper use, for example, has reduced to very low levels. Nevertheless, we intend to map out our emissions sources so that we can better understand where we need to focus our emissions reductions efforts.

In early 2021 we conducted some carbon literacy training for colleagues to help them understand how to reduce their carbon footprint in their home and working lives.

CHARITY

Launched early in 2021, Castlefield's Give Back Group was established with the dual purpose of enabling charity fundraising and supporting the wellbeing of our co-owners.

In addition to our longstanding charity partnership with Burden's Charitable Foundation and La Renaissance, a school for visually impaired students in Burkina Faso, co-owners were provided the opportunity to vote for a second charity to support for the year. From a shortlist of five local charities, the company-wide vote selected Coffee4Craig as our nominated charity. Coffee4Craig provides vital support for Manchester's homeless and people in crisis. In addition to operating an out-of-hour drop-in service in Manchester city centre, they offer hot food, showers, food parcels, medical support and mental health crisis intervention.

Castlefield co-owners raised over £750 for our beneficiary charities through 2021. Highlights included a virtual massage and an online yoga session at the beginning of the year for which co-owners could donate to charity to attend. Both events were organised to help promote health and wellbeing. In June, we organised a hugely popular 'step challenge' competition where co-owners competed against each other to achieve the highest number of steps in a month. Participants walked a combined total of 3,648,400 steps or approximately 1,711 miles. In the lead up to Christmas, a pub quiz and a donation drive for Coffee4Craig closed the year. Additionally, those co-owners taking part in the Secret Santa could choose to donate to charity on their recipient's behalf.

ANNUAL SYMPOSIUM

Each year, we host an Annual Symposium event for our clients which focuses on what we believe to be the year's key sustainability topic. This year, the event in September discussed what Net Zero really means and what's required to achieve it, regardless of the success or otherwise of the 26th UN Climate Change Conference of the Parties (COP26).

Matthew Bell OBE, Director and Co-Founder at Frontier Economics kicked off the Symposium by delivering an insightful keynote presentation, followed by a panel discussion which allowed the opportunity for questions.

The panel featured:

- Julia Creasey (Croda International)
- Teni Ekundare (FAIRR)
- Ita McMahon (Castlefield)
- Professor Jonatan Pinkse (Alliance Business School, Manchester University)
- Peter Uhlenbruch (ShareAction)

The full recording of the Castlefield Symposium can be found on our website: https://www.castlefield.com/news-media/videos/castlefield-symposium-2021-recording/

MEET THE TEAM

Alison Newall
Chartered MCSI
Associate, Investment Management

Amelia Overd
MA (Hons), IMC, ACSI
Manager, Investment Management

Barney Timson
BSc (Hons), MSc
Executive, Investment Management

Daniel Lonsdale
BSC (Hons), IMC, ACSI
Manager, Investment Management

David Elton
BSc (Hons), IMC, Chartered MCSI, CFA
Partner, Investment Management

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

India Harkishin
BA (Hons)
Executive, Investment Management

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

John Eckersley
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Managing Partner

Mark Elliott
Mchem (Hons), Chartered MCSI, CFA
Partner, Head of Investment Management

Mike Heron
Chartered MCSI
Executive, Investment Management

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

Simon Holman
MA (Hons), MSc, CFA, Chartered MCSI, ASIP
Partner, Investment Management

William Thomson
Chartered FCSI
Associate, Investment Management

FIND OUT MORE

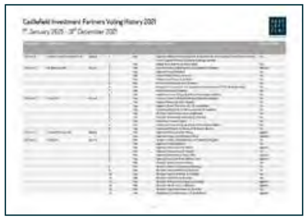
OTHER KEY POLICIES

Castlefield Best Sustainable Fund Range Screening Policy

https://www.castlefield.com/media/3310/castlefield-best-sustainable-fund-range-screening-policy.pdf

Castlefield Corporate Governance & Voting Guidelines

https://www.castlefield.com/media/2883/corporate-governance-voting-guidelines.pdf



Castlefield Annual Voting Disclosure

https://www.castlefield.com/media/3514/castlefield-investment-partners-voting-history-2021.pdf

HELPFUL VIDEOS

UK Stewardship Code Summary

https://www.castlefield.com/news-media/videos/we-are-a-proud-signatory-of-the-uk-stewardship-code/

Castlefield – Signatory of the UN PRI

https://www.castlefield.com/news-media/videos/we-are-a-proud-signatory-of-the-un-pri/

Castlefield Investment Screening: A Closer Look

https://www.castlefield.com/news-media/videos/castlefield-investment-screening-a-closer-look/

CASTLEFIELD

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