

Castlefield External Advisory Committee Meeting

MEETING SUMMARY

Committee attendees: Matthew Ayres, Kevin Davies, Rebecca O'Connor, Geoff Sides

Committee attendees: Simon Holman, Amelia Overd, Rory Hammerson, Chloe Smith (RH & CS present for agenda item 5 only)

Review of Minutes from September 2018 Meeting

- KD welcomed the Committee back and opened the meeting by asking for any comments or amendments to the minutes from the previous meeting. As there were none, the minutes were approved.

Castlefield Voting Policy

- SH opened the discussion by providing a summary of the changes proposed by the investment team ahead of the 2019 voting season.
- The first proposal was to implement a 0% limit on non-audit fees. SH explained that Castlefield's Stewardship Committee were already minded to reduce the limit from 50% but the recent statements by KPMG and Grant Thornton that they do not intend to take non-audit work prompted a reduction to 0% with more leniency available in the case of smaller companies in keeping with the 'comply or explain' approach. MA queried whether the nature of an absolute cut off would cause problems in practice and there was a discussion about the potential reasons for non-audit fees with the company's appointed auditor could be permissible. The Committee agreed that the proposal should be implemented.
- The second proposed change was the introduction of a specific point in the voting policy to reflect Castlefield's ability to vote against a remuneration report or policy due to pension provisions. SH set out our intention to benchmark to internal company metrics where available. ROC and KD provided views on potential points of comparison, such as the recommended contribution level for the general population and public pensions. How to approach DC pensions vs. DB pensions was also discussed. MA raised the issue of disclosure and how to approach companies which do not provide enough information for a comparison. AO responded that we currently use UK median data from the ONS when considering base salary levels and would do so for pensions where the companies do not disclose. The committee all agreed with the added provision regarding pensions.
- SH then discussed the proposed change to the wording of the diversity point in the voting policy. The change is intended to allow the team to take direction of travel into account as we felt this better reflected our voting in practice. ROC discussed the need for diversity within management as well as the board to be given consideration and GS noted that it should perhaps explicitly reference 'diversity in all its forms'. Overall the committee agreed that an amendment to the wording would be able to reflect these considerations.
- Management shareholding was the next topic. The Stewardship Committee proposed the addition of a provision to allow voting against an executive director if they were observed to be making no effort to reach the minimum mandated shareholding amount. MA asked whether this would take into account whether the shares had been purchased or awarded. AO referred to the IA Remuneration Guidelines which recommend that shares no longer be subject to any vesting/holding periods before being counted and that the preference would be that the executive was seen to be purchasing shares from their own resources rather than having them awarded as part of the hiring process. The Advisory Committee all agreed this addition.

- The final point of discussion was remuneration. The investment team had recently discussed whether to reduce the limit on variable remuneration but have yet to reach a conclusion. SH set out the main points from both sides of the discussion and asked for the thoughts of the Advisory Committee. ROC raised the point that bonus structures across the company should be considered as if a company has had a great period of performance, that is not solely down to the CEO/CFO. ROC also asked whether there was the possibility of working with another investor on the topic. SH/AO believed the move to reduce the limit would put quite a distance between Castlefield and other investors so that may not be possible but open to looking into it as an option. GS added that the entire structure of pay needs to be reconsidered as there are a large number of schemes in place with a variety of structures. KD summarised the viewpoint of the committee. There was the general view that there were situations where higher variable pay could be justified as this could reflect periods of exceptionally strong performance or a scenario where there has been a turnaround/change of strategy. Equally, there was a desire to see an appropriate structure in place and that this higher level of variable pay should not be commonplace. Ideally, this should also be reflected in some way across the wider workforce. The Committee agreed that they would discuss the topic of remuneration at the February 2020 meeting by which time the investment team will have had time to gather more data and research on the topic and bring a proposal to the Advisory Committee. GS suggested that the Stewardship Committee could provide a particular example when the topic is next discussed.

Discussion: Nuclear Power

- The Committee had been provided with a position paper by Castlefield and GS had also provided a paper put together by Prof. Hanson, a professor of nuclear process engineering at Leeds University. SH provided a brief overview of how Castlefield felt it might fit into the Screening Policy, but that the team could see cases on both sides of the argument and wanted to get the input of the Advisory Committee before making a decision either way.
- MA acknowledged that it was a complex subject and that the paper provided by Prof. Hanson was quite pro nuclear. From his point of view, MA said he thought it would be hard to exclude it entirely and that as part of a broader energy mix, there were arguments for its inclusion as a necessary way of phasing out carbon intensive fuels.
- ROC said she felt that as investors, Castlefield were in a good position to take a view and that while she can completely understand and respects the arguments for nuclear power, she wouldn't personally want to fund it as there were alternatives to invest in it as she would not want new nuclear. The cost was also seen to be quite high and there was an energy ownership problem.
- GS referred to the Castlefield paper which included a point on the development of Small Modular Reactors and thought these should be considered as a cheaper alternative to large nuclear plants which take a long time to construct and are often subject to funding issues and delays. He also thought that we should be able to consider both nuclear and renewables to access a more diverse range of energy sources to avoid issues of scarcity.
- KD summarised the overall view of the Committee that in a perfect world there would be no nuclear with renewable technology able to provide for energy needs entirely but there is recognition that we are not yet at that point. There was also the general view that there may not be cause to screen it out completely if nuclear was used as a well-structured mix and there was momentum towards increasing usage of renewables as part of a transition strategy.
- Coming back to the question of a screen, the discussion was brought back to the expectation of the investor and that while nuclear power was not generally seen to be unethical, there was no desire to be investing in companies with high exposure to nuclear power generation. A show of hands as to whether there should not be a screen at all, or a screen of 10% in line with the wider screening policy showed that the committee recommended the implementation of a 10% threshold screen to nuclear power.

Castlefield Screening Policy

- SH provided an overview of the development of the Castlefield Screening Policy and how the process had evolved over time.
- The Committee were happy with the points included within the screening policy with the acceptance that it will continue to be updated on a regular basis. One suggestion was the inclusion of a further list of points that are considered as part of the investment process such as human rights issues and animal welfare that are not able to be captured by a 10% threshold as this might make the work Castlefield do more apparent to investors.
- SH noted the intention to amend the wording of the section of mining to add clarity and increase the scope.
- GS also asked about fracking, and SH said this was included within the section on fossil fuels.

A presentation on the B.E.S.T Sustainable European Fund

- RH and CS presented on the European Fund, providing information on the investment style and process as well as examples of companies which fit within the 'quality' or 'transformational' segments of the portfolio.

Discussion: Conflict Minerals

- Castlefield had provided a paper on conflict minerals and how the team intend to approach it as investors.
- KD said that his first thoughts were about the ways to distinguish between the extraction of any metal/fuel/mineral at source as there are several issues in addition to funding conflict that have an impact on the surrounding area and its population. There is a balance to be had between the end product, which can be an overall positive, such as wind turbines or EVs, and the impact of the initial sourcing.
- ROC raised the need for a long-term cost benefit approach to take into all the wider impacts over time and at different stages of a company or products development.
- GS said that direct investment was not a possibility, but it can often be difficult to track where it ends up.
- ROC asked about levels of transparency and Castlefield's ability to get a good idea of exposure and what companies themselves are doing. AO responded that there is legislation in the US that requires disclosure on conflict minerals but what companies are actually doing to address the issues is not as apparent and this does not include cobalt at the moment which is used in EVs.
- GA said the position paper set out Castlefield's engagement aims well and that the approach covers all the key points in addressing how companies take responsibilities for their supply chains. The Committee also agreed with Castlefield's intention to treat cobalt in the same way as they would any other conflict mineral with regards to requesting company disclosures.

Suggestions for Future Topics

- The Committee discussed future focus areas where they could provide guidance.
- GS suggested fracking and security of energy supply, particularly in light of current geopolitics. ROC suggested data privacy/data use, artificial intelligence and GDPR legislation. She suggested that a key focus area could be seeking

reassurances from companies that they are using personal data responsibly. Plastics and palm oil were also raised as areas of interest.

- The committee put forward data protection/privacy as a subject to discussion in relation to investment and asked Castlefield to put forward a topic after discussing with the team. SH said that one potential issue for future meetings could be animal testing for medical purposes, but we will revert once the wider team have been consulted.