

STEWARDSHIP REPORT Q3 2024

The information in this document was accurate on the date of production. Please note on 2nd December 2024 the naming and marketing rules under the Sustainable Disclosure Requirements (SDR) came into effect and therefore there were changes made to fund names and disclosures. These changes will be reflected in the next version of this document.

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THE THOUGHTFUL INVESTOR

STEWARDSHIP SNAPSHOT

Stewardship activity over the quarter:

- JUL:** Although not shareholders, we attended the **JD Sports** AGM and secured an agreement from the Chairman to meet with ShareAction, a Non-Governmental Organisation campaigning for retailers to adopt the Real Living Wage.

We invest in an external fund which holds an investment in **London Stock Exchange Group** (LSEG). With some encouragement from us, the managers of the fund joined an investor group, co-ordinated by ShareAction, to meet with LSEG and encourage the company to report on its ethnicity pay gap.
- AUG:** We met French power equipment maker, **Schneider Electric**, to provide recommendations on updating its sustainability strategy and targets which are due to be renewed next year.
- SEP:** Our **external advisory committee** met in Manchester to scrutinise our funds' holdings, hear about recent engagement on climate and understand what employee ownership means at Castlefield.



Carbon Disclosure Project (CDP)

As supporters of the CDP, we've been encouraging companies to report on their environmental footprint. CDP has extended its target list to include smaller listed companies this year, and with our UK Smaller Companies Fund, we've been well-placed to encourage our holdings to get involved.



Workforce Disclosure Initiative (WDI)

As long-standing coalition members of the WDI, we contacted several holdings again this year to encourage improved disclosure of workforce data. We've been successful in getting four companies to report this time, including one first-time reporter.

ENGAGEMENT ON SCHNEIDER ELECTRIC'S SUSTAINABILITY STRATEGY

SUMMARY: We were invited by French power equipment maker, **Schneider Electric**, to give our views on how the company can update their sustainability strategy and targets which are due to be renewed next year. We also talked to the company about its work on reducing its supply chain emissions.

Schneider Electric, a French firm held in our European Fund, provides products and solutions in the areas of electrification, automation and digitisation. The company has an extensive sustainability strategy in place and has a good track record on incorporating sustainability into its products and services. For example, it has recently acquired EcoAct, a sustainability consultancy with 1,000 consultants employed globally.

31%¹ of Schneider Electric's revenue meets the stringent EU Taxonomy standards, a classification system that defines criteria for economic activities that are aligned with a net zero trajectory by 2050. The company also has its own system for tracking products that have sustainability credentials. It has named this Schneider Sustainability Impact (SSI). Currently, 74% of revenue comes from products aligned to the SSI standard and the company has an ambition to increase that to 80% by 2025². All of this illustrates the extent to which environmental considerations are embedded into the company and the end markets that it serves.

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1. Pg 220, [Schneider Sustainability Report 2023](#)
 2. Pg 3, [Schneider Sustainability Impact Q2 2024 Report](#)

In our conversation with Schneider we acknowledged the good work that the company has undertaken to date and also congratulated them for being an early adopter of the Science Based Target Initiative (SBTi) Corporate Net Zero Standard. This means that the company's planned pathway to net zero has been accredited by an independent body, the SBTi. The company talked about the most challenging area of carbon reduction – its supply chain emissions, and its plan to engage 1,000 of its top suppliers and help them reduce their emissions by 50%.

In terms of our recommendations for the future development of their sustainability strategy, we suggested that they focus on the idea of the circular economy, i.e. where products are not disposed of at the end of their useful life, but instead are repaired or repurposed. 22% of Schneider's 'product families' have a circular option available³ and we think there's opportunity to go further still. We suggested that they set a target for increasing this further. They took the comment onboard and talked about their programme to embed 'eco-design' into their research and development processes so that circularity can be considered at the outset. All in all, this was a positive meeting, with a company that is already a leader in sustainable business and that is open to hearing from investors and other stakeholders on setting ambitious targets for the future.

Written by
Ita McMahon



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3. Pg 8, [Natural Resources Report 2023](#)

GOOD WORK COALITION

Engaging with London Stock Exchange Group (LSEG) on Ethnicity Pay Gap Reporting

SUMMARY: We joined a coalition of investors working to improve corporate reporting on ethnicity pay gaps. We encouraged a third party fund that we invest in to join a specific call with the London Stock Exchange Group.

Good Work Coalition's ethnicity pay gap reporting campaign has recently focused on two areas: financial services and the food sector. Financial services companies play a pivotal role in influencing business practices across other sectors due to their dual role in the economy as corporate entities and through capital allocation.¹

London Stock Exchange Group (LSEG) is one of the companies that the Coalition has been engaging with on this topic. Castlefield does not directly invest in LSEG, but our portfolio funds invest in a third party fund that has a holding in LSEG. We contacted this external fund manager to make them aware of this engagement and encouraged them to get involved. They agreed and joined in the company engagement call, along with Castlefield and other investors from the Good Work Coalition. The aim of the online meeting was to encourage LSEG to improve its ethnicity pay gap reporting.

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LSEG began reporting its ethnicity pay gap in December 2022, following ShareAction engagement in April 2022. The objective of this engagement was to understand why it uses a different methodology to its peers, thereby making direct comparisons between companies more difficult. LSEG was able to explain that its chosen methodology is used by some large US companies and also consultants with whom it is working.

We also highlighted the importance of reporting its ethnicity representation in each pay quartile, as well as disclosing the mean and median bonus pay gap. The company explained that a key challenge in providing granular pay gap data, for example disaggregating UK data by ethnicity, is the smaller number of employees in each category. LSEG is focused on balancing the desire to improve transparency, whilst also retaining and building trust with staff.

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Earlier this year, the UK government claimed it would require large companies to publish ethnicity pay gap reports. Gender pay gap reporting has been mandatory for companies with over 250 employees since 2017 and we urge the government to take the same stance on ethnicity. In the meantime, we will continue to support the Good Work Coalition in a collaborative drive on this important topic.

Written by
Eleanor Walley



1. https://cdn2.assets-servd.host/shareaction-api/production/resources/reports/Ethnicity-pay-gap-toolkit_2023-07-19-131921_pmyy.pdf?dm=1716973066

COLLABORATIVE ENGAGEMENT UPDATE

SUMMARY: Collaborative engagement remains a central component of our stewardship programme. By joining forces with other investors we can amplify our calls to make progress on social and environmental issues. Here, we give an update on our work on the Carbon Disclosure Project (CDP) and the Workforce Disclosure Initiative (WDI).



CDP: For the fourth year running, Castlefield is participating in CDP's non-disclosure campaign, which seeks to encourage companies to disclose their climate, water and forestry risks by completing their questionnaires that are aligned with the Task Force on Climate-related Financial Disclosure. The 2024 iteration is aligned with the ISSB (International Sustainability Standards Board) climate standard and is now fully integrated, with every company required to complete a climate change segment alongside sections on biodiversity and plastics. Water security and forestry sections are shown if the company meets the materiality assessment. This new approach attempts to reduce the duplication of any answers and encourages a more holistic approach to environmental management.

In 2024, we approached five names across the fund range, three on the topic of climate change and the other two on water. All of the names we approached were UK-listed but notably included companies of varying size as measured by market capitalisation. Historically this has not been the case, but the recent expansion of CDP's campaign to include companies listed on the Alternative Investment Market has increased the pool of names we can approach within our fund range. To help these smaller companies disclose their data (for what might be the first time in many cases), CDP has created a slimmed down version of its questionnaire and offers additional support.

We have spoken directly with senior management at a number of companies already to encourage their participation in the campaign, although the final results will not be available until later in the year as the disclosure window currently remains open. We are encouraged by the conversations we have had so far, especially amongst some of the smaller names, where we believe we can have a significant influence.



WDI: Castlefield has actively supported WDI since 2018, recognising the need for standardised and comparable data on workforce issues such as health and safety, diversity and inclusion, human rights, employee wellbeing and many more. As the 2024 disclosure window concludes, we're pleased to see that four of the companies we approached this year have now completed the survey, one of which is a first-time responder.

Written by Barney Timson
and Eleanor Walley



ADVISORY COMMITTEE: UPDATE FROM SEPT 2024 MEETING

SUMMARY: Our advisory committee is made up of clients and experts in responsible business. They meet twice a year to act as a sounding board for our investment team. We ask them to review our funds' holdings, update them on fund changes and ask for their opinions on emerging social and environmental topics that should be on our radar.

The committee met in September and started the meeting by welcoming a new member to the Committee, Mike Hart from the United Reformed Church, North West Synod.

First, the committee received an update on new holdings to the fund range as well as recent divestments. This included the introduction of cyber security firm, NCC, to our Smaller Companies Fund and AstraZeneca to the UK Opportunities Fund.

The Committee then discussed the use of estimated data in our fund-level social and environmental reporting. It's a topical issue because investors like us want to publish more data on, for example, the carbon footprint of our funds but have reservations about the extent to which estimated data is used at present. We talked to our advisory committee about this earlier in the year and they provided some useful recommendations which we were able to give an update on. These included working with our data providers to understand their own data scrutiny processes in more detail and the extent of any third party verification on estimated data.

In terms of environmental topics, the Committee members gave their views on how we can amend our voting escalation process next year. We want to maximise our leverage as investors to vote against directors at companies that facilitate the expansion of fossil fuel extraction. The committee also discussed the difficult issue of investment and conflict zones and we were able to talk to them about some new resources that can help investors navigate this issue.

Finally, we gave the members a short briefing on our status as an employee-owned company, outlining the benefits that brings to our clients and our colleagues. We sought the Committee's opinions on how we can better convey this to our client base. We were pleased that the committee could see the value in talking to clients about how we manage our business as well as how we manage our funds.

Castlefield External Advisory Committee

Lisa Stonestreet (Chairperson)

Head of Communications & Charity Impact
EIRIS Foundation

Ilma Nur Chowdhury

Senior Lecturer/Associate Professor in Marketing
Alliance Manchester Business School

Juliana Burden

Head of Ethical Research
Ethical Screening

Gilbert Stephenson

Trustee of the Evangelical Fellowship of
Congregational Churches

Mike Hart

Transformation Director
United Reform Church, North West Synod

Written by
Ita McMahon



ATTENDING THE JD SPORTS AGM

SUMMARY: Although not shareholders, we attended the JD Sports Annual General Meeting (AGM) and secured an agreement from the Chairman to meet with ShareAction, an NGO campaigning for retailers to adopt the Real Living Wage.

We're longstanding supporters of ShareAction, an Non-Governmental Organisation (NGO) that works with investors to bring about positive social and environmental change at listed companies.

For many years, ShareAction has worked with investors to attend company AGMs. Listed companies are required to hold an AGM and these meetings are open to shareholders. AGMs are a great way of putting questions directly to management teams in a public forum. As shareholders, we'd usually opt for having a private meeting over a public debate but ShareAction hadn't been able to establish a private dialogue with JD Sports and asked us if we'd be able to attend the company's AGM, given our proximity to the meeting's venue in Manchester.

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Although we're not investors in JD Sports, we wanted to be supportive of ShareAction's work and agreed to attend on their behalf. This year, ShareAction has been targeting the AGMs of supermarkets and high street retailers to ask for commitments to pay the Real Living Wage.

At the JD Sports AGM we were able to read out a prepared statement on the increased costs of price of essential goods, the impact on low paid employees and the importance of paying the Real Living Wage. Next, we asked the company to commit to paying the Real Living Wage and also to agree to meeting ShareAction and the Good Work Coalition which ShareAction co-ordinates.

We were pleased that the Chairperson agreed to meet with ShareAction and provided an email address for future correspondence. He noted that the company does not like to sign up to external commitments that relinquish company control, and this is a common objection that companies make when asked to become a Real Living Wage employer.

The Chairperson was keen to point out that the company has spent £70m on improving pay this year, with £30m being spent on removing the age bracket pay ranges and adopting the national living wage across the workforce."

The Chairperson was keen to point out that the company has spent £70m on improving pay this year, with £30m being spent on removing the age bracket pay ranges and adopting the national living wage across the workforce. This included £40m spent on increasing pay through initiatives such as increasing the ratio of guaranteed payments within pay packages compared with bonuses. He noted that staff have received a 7.1% in salary across the workforce, with more significant increases in place for front line staff. The Chairman went onto say that work has also been undertaken to enhance maternity pay.

This is all very welcome news. ShareAction has updated us to say that they will be contacting the company in October with the aim of securing a meeting. Let's hope that JD Sports upholds its promise.

Written by
Ita McMahon



VOTING ACTIVITY: Q3 2024

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 funds we manage. We consider each resolution carefully and often engage with companies where we disagree with their stance. 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; they are made publicly available on our website, as is our full voting history.

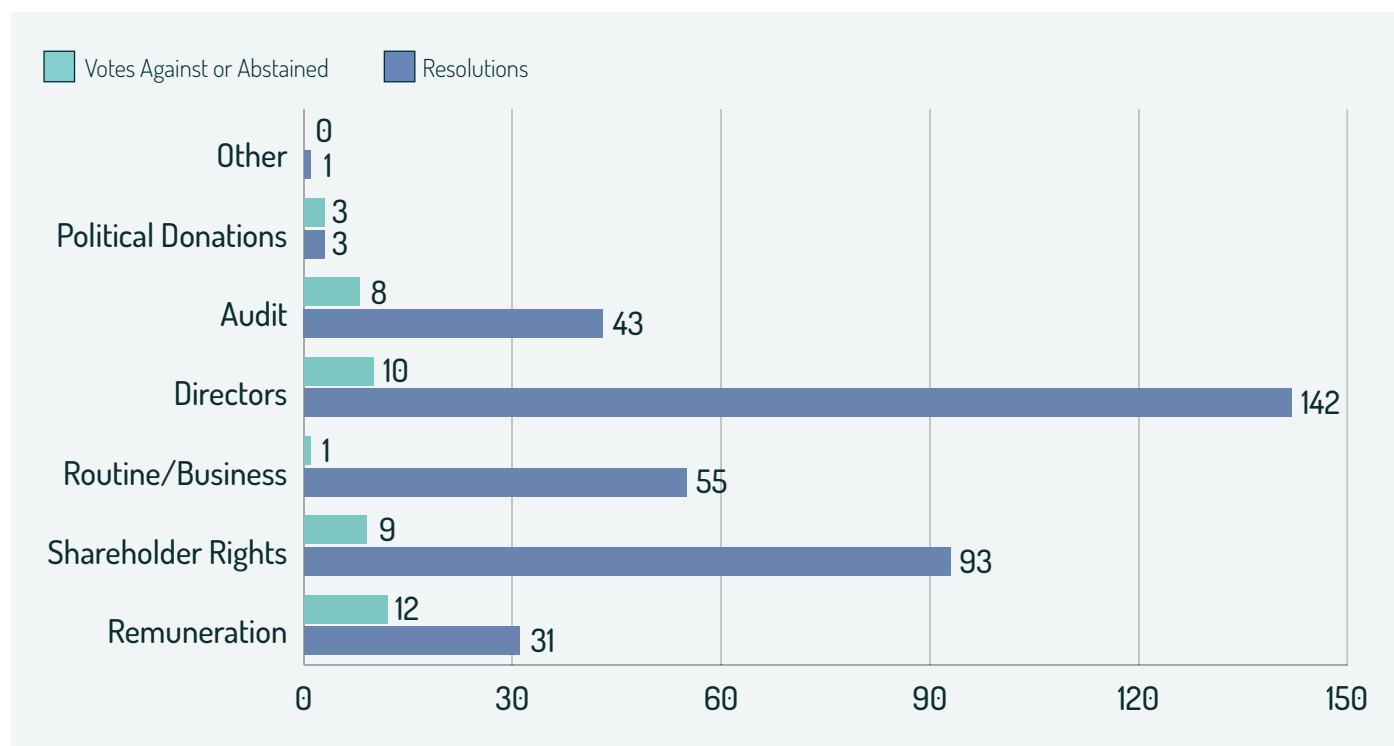
RESOLUTIONS

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|-----------------------------------------------------|-----|-------|
| Number of resolutions where votes were cast For | 325 | 88.3% |
| Number of resolutions where votes were cast Against | 41 | 11.1% |
| Number of resolutions where votes were Abstained | 2 | 0.5% |

During the quarter, we voted at 32 meetings hosted by our investee companies, with a total of 368 resolutions.

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| 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 this category include resolutions that are often uncontroversial, 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:



MEET THE TEAM



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Assistant Investment Analyst



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Wealth Manager
Investment Manager



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