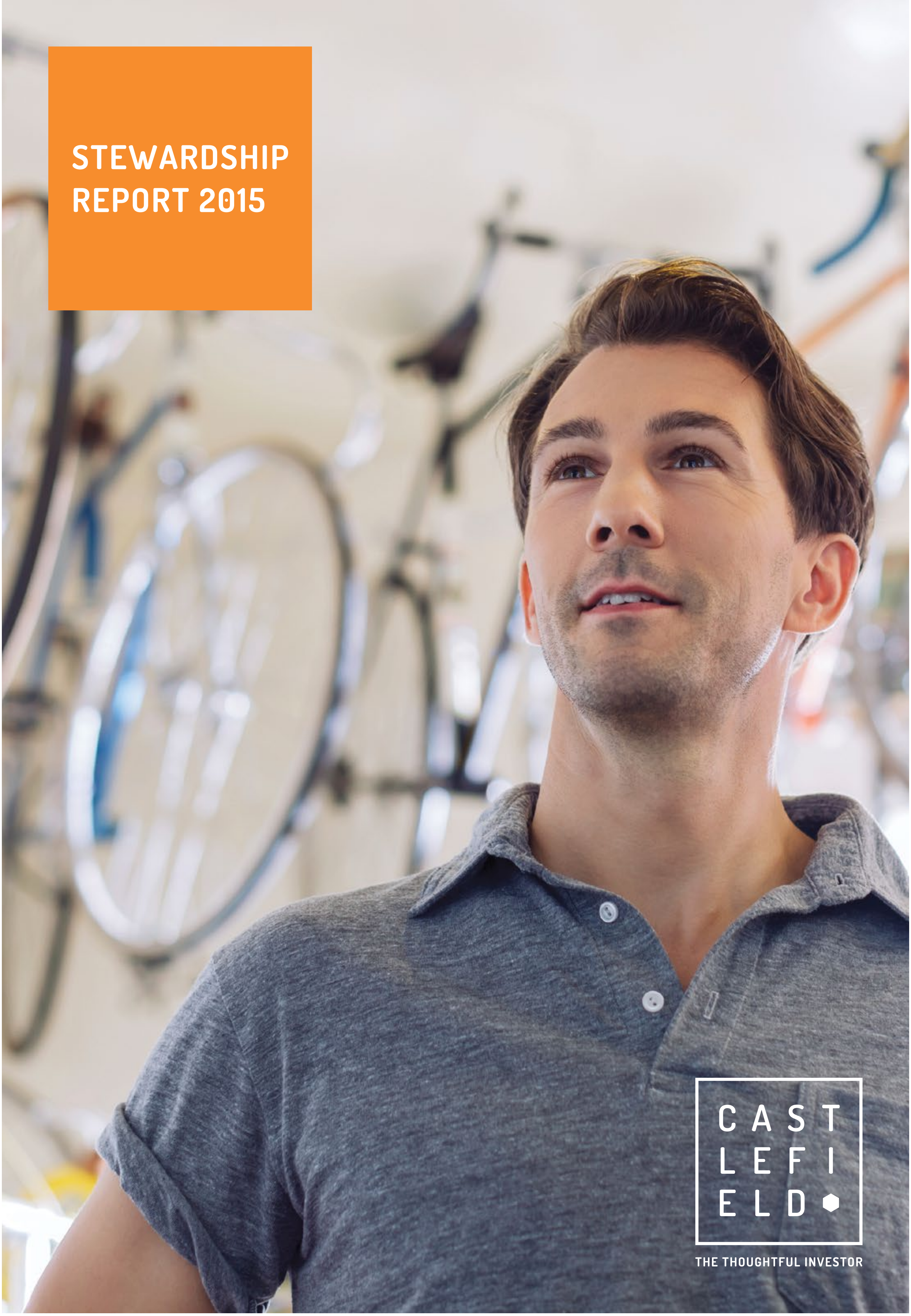
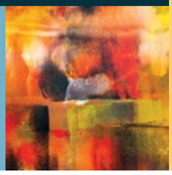
STEWARDSHIP REPORT 2015



CASTLEFIELD

THE THOUGHTFUL INVESTOR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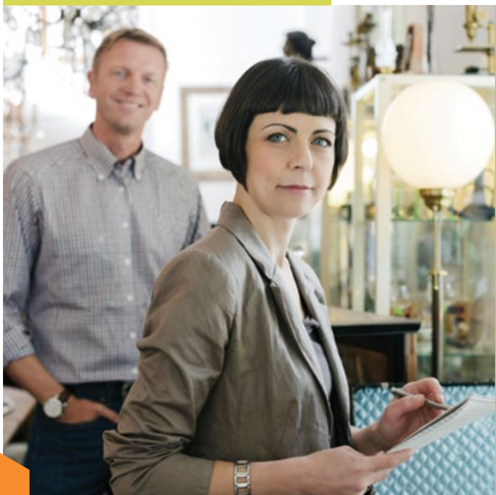
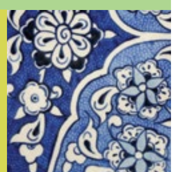



FOREWORD

Welcome to our inaugural Stewardship Report. In this and future reports, we will set out to you – our clients – and the wider investment world the responsibilities, actions and developments we fulfil as asset owners on your behalf. Our belief is that it is our duty to you to carry out effective stewardship of your assets, whether that takes the form of exercising the right to vote attached to equity holdings or approaching companies directly to discuss matters worthy of attention. In part, this is a function that should be carried out in principle as asset owners; but beyond that basic criterion we also believe that investment returns can be improved for you by ensuring that suitable governance standards are upheld on investee companies.

The scope of the report covers 18 months, dating back to the start of 2014. During this period, we have completed our policy document demonstrating our adherence to The Stewardship Code and this will be publically displayed on our website. We have seen a significant increase in the amount of resolutions we have voted on your behalf and we continue to develop our approach to that voting. There are generally accepted practices in the form of the Combined Code on Corporate Governance which has emerged from detailed institutional discussions and whilst this provides a good framework for assessing how the companies we are invested in for you are aiming to conduct themselves, we aim to employ our own interpretation in determining voting practices rather than simply relying on the judgement of others.

ESG (Environmental, Social and Governance) factors are an increasingly important part of the investment landscape and we have to approach them in the most appropriate way for you. From our perspective, the majority of the voting carried out relates to a wide range of Governance issues – from remuneration policies to auditor independence and shareholder dilution risks to political donations. The ability to vote specifically on Environmental and Social matters is less obvious; instead, these are material parts of the research process that delivers investment ideas. Furthermore, these areas provide good grounds for engaging with companies in order to test their practices in relevant areas with a view to assessing potential risks to investment arguments. Although superficially they might appear as non-financial risks, our approach is that companies which do not have sufficient management attention being paid to a broad range of concerns are at greater threat of seeing them morph into financial issues and potentially impairing investors' capital. This is an outcome we aim to avoid for your assets.

As noted above, this is our inaugural report and reflects progress to date but we would like you to see it just as a starting point. Addressing Governance matters appropriately was our main focus at the outset and we will continue to evolve our approach to voting in this regard, whilst a key objective from here is to increase the level of engagement we have with companies on your behalf. As a result, we expect to demonstrate enhanced activity on your behalf over time and look forward to reporting back to you with the results in due course.

Simon Holman
Partner

OUR APPROACH

How do we work in practice? Much as you would expect from a discretionary fund manager, we have an investment process in place for producing individual stock ideas and then implementing them into pooled or segregated accounts as appropriate. On the investment team, our roles combine both analyst and fund manager responsibilities; in addition, we are also responsible for analysing the relevant ESG issues as well as determining the nature and implementation of voting decisions. This means that our ESG and stewardship function is systematically integrated into our investment process.

ESG

The extent of the ESG influence on the investment process varies according to different strategies. At a minimum, ESG risks and issues are considered for all investment decisions whether in our own funds (the ConBrio range) or in segregated client accounts, ensuring a base level of consistency. For our ConBrio B.E.S.T Income Fund, the name reflects the nature of the criteria it applies as follows:

B	BUSINESS & FINANCIAL
E	ENVIRONMENTAL & ECOLOGICAL
S	SOCIAL
T	TRANSPARENCY

This fund applies a number of sector exclusions as well as employing a stricter threshold for eligibility on some issues such as employment practices and the use of zero-hours contracts, for example. Clients with investments in our ethical service have specifically chosen to have a broader application of ESG criteria applied to their investments and in this regard, we monitor and discuss developments with external managers where they are used, ensuring that their mandates are sufficiently robust for our client preferences. In this way, clients are able to enjoy a spread of strategies aimed at covering the main issues in the sector. Finally, clients invested in our segregated ethical service are able to apply their own specific ESG criteria to their portfolios for us to employ. In summary, ESG matters are an integral part of our investment process whilst their application is nuanced depending on the specific strategy in place for each client.

Whilst we aim to keep informed of major trends and issues that might affect existing or potential investments, we also know that there are specialist resources available to augment our offering for clients. In particular, we subscribe to EIRIS (Ethical Investment Research and Information Service) and IVIS (Institutional Voting and Information Service) in order to access some of this expertise and resource. EIRIS primarily provides us with the ability to view how individual UK companies are assessed on a comprehensive range of ESG metrics and to determine their suitability for consideration as investments. IVIS, meanwhile, produces company reports ahead of each AGM and EGM (Annual/Extraordinary General Meeting) detailing the resolutions due for voting on and the relevant background information to be aware of. This allows us to assess the suitability of each resolution and thus inform our voting decisions.

STEWARDSHIP

As mentioned previously, the same team is responsible for both the investment and the stewardship & ESG activities. As each investee company vote comes up, we circulate the list of resolutions and assess them initially by referencing the IVIS report. This provides an initial check on any resolutions that are potentially contentious and the company's rationale for them, which can then be followed by our own further investigation into areas of interest. This might entail verifying attendance of Directors at Board meetings, for example, or querying with relatively smaller companies whether shareholder dilution is being fairly considered.

In addition, we talk with a number of companies every year – whether in a meeting or via conference calls – which gives us the opportunity to discuss specific issues as they arise. These meetings and calls can either be part of wider company roadshows or they are occasionally initiated at our request. These meetings also allow us to explain our position to companies and why various issues are of particular interest to us; the following are four specific examples:

Debenhams:

When we began analysing the company we were pleasantly surprised to find it has its own sustainability microsite – subsequently tempered somewhat by realising that it was well out of date. We arranged to speak to the company who acknowledged this issue and assured us that this would be addressed, which it has been. There is potentially an argument that the company could provide more resource here, which is something we can monitor over the course of this investment and make representation to the company regarding. Following our initial contact, we arranged a further conference call with the Director of Ethical Trade & Corporate Responsibility, who had been unavailable initially as she was in Bangladesh checking on the supply chain. We came away from this conversation confident that Debenhams is well aware of the key issues facing the sector and has appropriate policies in place to tackle them. These range from participation in SCAP (Sustainable Clothing Action Plan) – which aims to cut carbon emissions, water use and waste to landfill – to their internal audit requirements for their supply chain, which entails strategic approval being needed by the sourcing team before a factory can be approved, in order to ensure that it meets the required technical and ethical criteria. Initial audits are unannounced and the UK-based Compliance team reviews them all, providing an extra layer of oversight. In general, supplier support is a key element for the company; it is a member of the Ethical Trading Initiative and thus seeks to ensure that there is no child labour in the supply chain, that the correct wages are paid and that safety standards are adhered to. All in all, we believe that Debenhams can demonstrate its adherence to and support for the major initiatives to ensure a fair supply chain and its commitment to developing its sustainability policies.

HSBC:

On the voting front, we had voted here against both the remuneration report and policy at the 2014 AGM, as well as abstaining on one other measure regarding shareholder rights in relation to potential dilution of their holding. On a subsequent visit to Manchester by the company, we specifically asked about more governance-focused issues having flagged them ahead of the meeting. Remuneration in general was discussed, as was the fact that circa 10% of HSBC's global workforce is now in compliance and regulation. The company is also an accredited Living Wage employer, for employees and contractors alike, a feature currently relatively rare amongst major UK companies and showing material corporate commitment on an issue that many of you are concerned about. We also asked about their lending into extractive industries – and whilst the Investor Relations representative focused more on the checks they do to ensure they aren't inadvertently financing misdemeanours such as illegal rainforest clearing or wanton environmental destruction, the debate did not extend to the business risk of lending to industries that may be unable to repay their loans if the price for their goods collapses i.e. the fossil fuel divestment argument. This possible business risk is something that we can monitor and potentially try to raise again in future.

Balfour Beatty:

Despite the major operational issues affecting the company throughout 2014, we were able to hold a conference call with the Investor Relations Manager having made contact to explain we were interested in discussing the extent of Balfour's involvement within the nuclear energy industry, something which is an area of concern for a number of you. In the process, our conversation expanded out into a discussion of the company's "Zero Harm" policy and the commitment of senior management towards ensuring that health and safety systems are in place and effective, something we see as essential in the construction industry. Balfour Beatty is not a producer of nuclear energy while we came away comfortable that the extent of its nuclear sector involvement is not so material as to preclude investment. We also felt happy with the emphasis placed on health and safety and the company's apparent commitment to the well-being of its employees.

Golden Lane Housing:

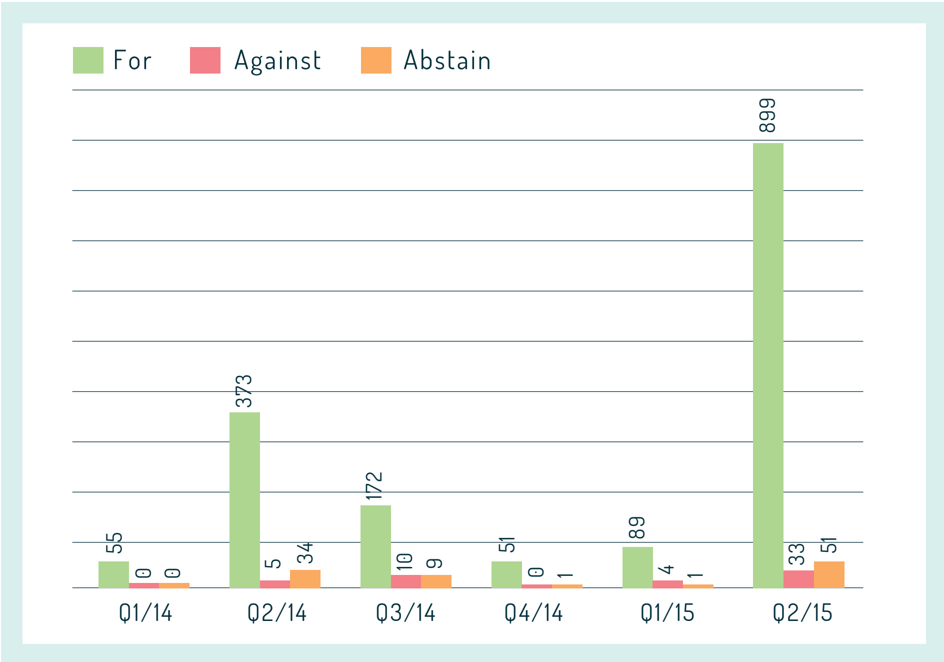
Golden Lane Housing is the specialist property management arm of Mencap, the charity responsible for providing support to those with a learning disability. Golden Lane Housing (GLH) was established as an incorporated charity wholly owned by Mencap in 1998 with the specific remit of managing the charity's supported housing programme. Since then they have assisted over 1,300 people with the provision of over 500 properties, enabling those who live in the properties to enjoy a level of independence that would not otherwise be possible. GLH provides assisted accommodation for those with a learning disability across England, Wales and Northern Ireland. Where GLH own properties, they are typically "everyday" residential – type properties and not specialist accommodation blocks. This enables their tenants to enjoy a high degree of integration with their immediate environment. It facilitates independent living but also allows a tenant to be close to his or her existing family, something that may not be possible with other assisted accommodation provided by a local authority. In order to further expand the number of accommodation places that GLH can offer, they raised £11m by way of a bond issue and after meeting the management team to learn about the business, we invested in the bonds for clients both at the point of issue and subsequently once trading on the market.

The issue of this bond represented an important development in the Order book for Retail Bonds (ORB) in that it was the first Retail Charity Bond (RCB) to be launched. This means that the proceeds go towards supporting the activity of the charity issuing the bond, rather than for general business purposes of an ordinary corporate issuer. In this case, we felt that the terms of the GLH bond were suitable for investment in its own right, with the socially beneficial cause a powerful complement to the rationale.

VOTING DETAILS

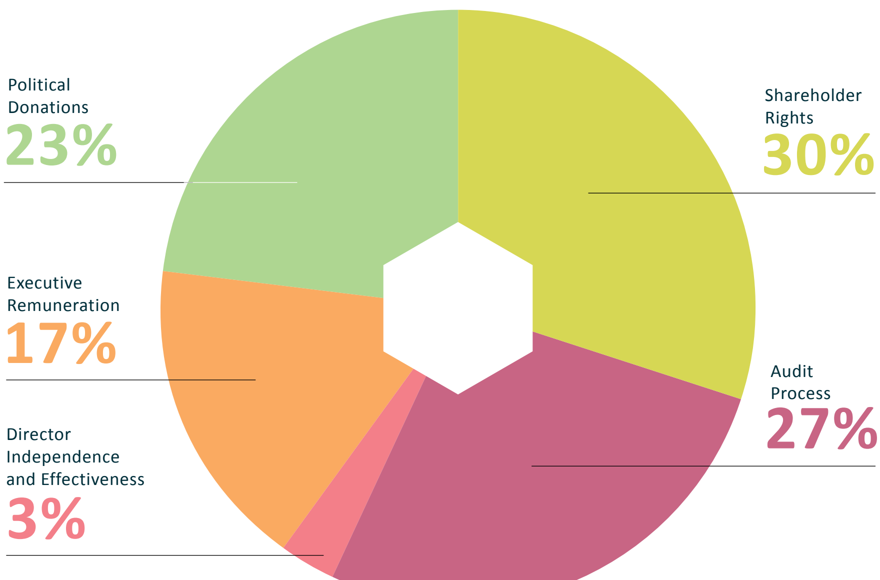
RESOLUTIONS		
Number of resolutions where votes were cast for	1,639	(91.7%)
Number of resolutions where votes were cast against	52	(2.9%)
Number of resolutions where votes were abstained	96	(5.4%)

The following charts set out the nature and extent of our voting over this inaugural period, encompassing circa 1,800 resolutions on UK companies, of which approximately 8.3% have gone against the Board.



The last graphic shows the breakdown of votes not cast with management; to date, these have come in three main areas with executive remuneration close behind. Political donations represented one of the very first areas we targeted on clients' behalf whilst we have increasingly been dissenting on resolutions concerning the audit process (either remuneration or reappointment thereof) and shareholder rights (seeking to prevent unfair dilution). We cannot predict how this breakdown will evolve as we hope that companies will respond to shareholder concerns over time and propose resolutions that are less contentious; within our own votes, we might expect to see a change between abstention and an actual vote against. For example, on some issues we may abstain in the first year of voting but then look to vote against if the company has taken no remedial action.

VOTES NOT CAST WITH MANAGEMENT OVER PERIOD



THE LONG TERM

Our aim and preference is to select investments for you with the intention of holding them for the long term, which in our minds ideally means several years. There are two main reasons for this, the first of which is that we expect to achieve better returns for your assets by maintaining longer holding periods and allowing investment strategies to play out over time. A material component of better returns over longer periods is generated by minimising the performance drag associated with trading costs and this is something we bear in mind when managing your assets. In reality, sometimes this might fall by the wayside depending on positive or negative developments at investee companies, but in principle we aim to be long term asset owners on your behalf.

The second reason is at least as important, in that it is unrealistic to expect companies to engage with us if we are only shareholders for a brief period. A company's strategy should have a multi-year vision and as such, it makes sense to try and align an investment time horizon alongside that of a company. Management teams want stable providers of capital rather than short term speculators and in our mind are more likely to respond to the questions asked by investors if they are long term in approach. We would not expect a company to change strategy due to pressure from shareholders who have no intention of still being invested at the time that the strategy comes to fruition. Furthermore, we are very much against a short-term focus on shareholder benefits such as stock buybacks as opposed to multi-year investment in growing a business. One key area of focus for us as we enhance our voting capability is penetrating the often complex remuneration and incentive packages offered to executives to determine if they are fair in quantum and also testing in achievability. Excessive compensation packages – whether in cash, shares or both – will not be rubber-stamped, whilst we also check that there are multi-year performance measurement periods in place for them. Investment is about much more than short-term earnings per share gains to us.

SUMMARY

We hope that this inaugural report has provided you with a sense of what we are endeavouring to achieve at Castlefield. Engaging with companies and their management has been something that we have naturally been doing in the course of managing clients' portfolios since we were first established. This report not only formalises that contact but also puts our approach and the results into a format that is readily available to you and other interested readers. Rather than being a box-ticking exercise or impersonal audit, we are thoughtful in our approach to assessing companies' activities. We care about the outcomes from our engagement and hope that you can gain a sense of what we look for and then how we act accordingly. After all, we are only the guardians of your assets. By ensuring that we share with you our efforts in this and future reports, it hopefully illustrates that your investments are working for you, not just financially but also responsibly.

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