Q2 2018 & Annual Summary

STEWARDSHIP REPORT

CASTLEFIELD

THE THOUGHTFUL INVESTOR

STEWARDSHIP VOTING Q2

At Castlefield, we understand that an important part of managing our clients' assets is being active stewards. We have developed a set of voting guidelines which outline our stance on issues such as executive pay, director independence and auditor appointment. We aim to vote at all shareholder meetings and our voting policy ensures we take a uniform approach to decision-making.

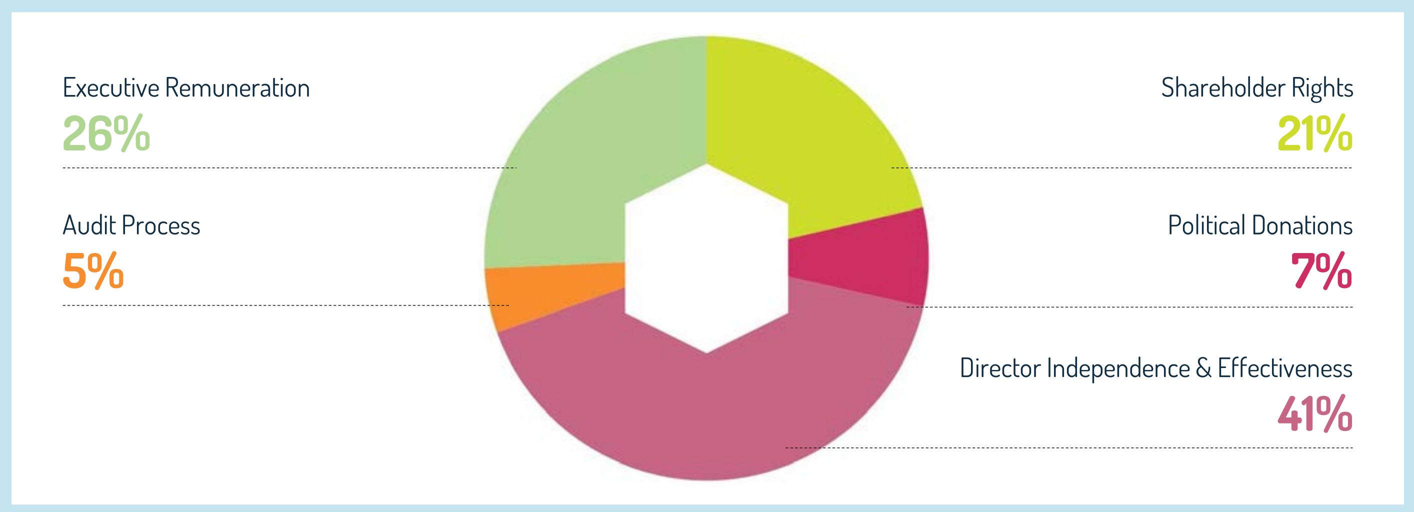
Q2 VOTING STATISTICS

Number of resolutions where votes were cast **For**	**1204**
Number of resolutions where votes were cast **Against**	**282**
Number of resolutions where votes were **Abstained**	**37**

Over the quarter we voted on **1523** resolutions for **95** meetings. Of the resolutions voted on, **79.1%.** of our votes were cast in support, **18.5%** were against and **2.4%** were abstentions.

1	**EXECUTIVE REMUNERATION**	...is covered by the remuneration report and the remuneration policy. If either of these proposals do not adhere to the guidelines in our voting policy, we vote Against these resolutions.
2	**SHAREHOLDER RIGHTS**	...refers to requests made by a company to engage in practices that we believe may be detrimental to shareholders. For example, we do not believe 14 days' notice is sufficient time for shareholders to prepare to exercise their voting rights and so will vote Against this request.
3	**DIRECTOR INDEPENDENCE & EFFECTIVENESS**	...is an issue often involving Non-Executive Directors (NEDs). NEDs should be independent in order to be effective and if a NED has been in place for longer than the nine-year tenure recommended by the UK Corporate Governance Code we will often vote Against or opt to Abstain. We will also vote Against the reappointment of a director if we feel they have not been particularly effective or if we feel that, due to a large number of external commitments, they may not be able to dedicate sufficient time to their directorship.
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**	...refers to auditor independence which may be compromised if the auditor has been in place for a long time and no tendering process has been undertaken, or if a large proportion of fees paid are for services other than their primary audit function.

% OF VOTES TO ABSTAIN OR GO AGAINST MANAGEMENT IN Q2



BARCLAYS – VOTING CASE STUDY

Over the course of the last quarter, one of the most notable opportunities to raise questions about a company's governance was Barclays. We only hold Barclays in one fund: it does not meet the stricter criteria demanded for inclusion in our B.E.S.T Sustainable Fund Range. However, we've been monitoring for some time the investigations into the conduct of Barclays' CEO, Jes Staley. Back in 2016, Mr Staley attempted to uncover the identity of a whistleblower who had questioned the suitability of a soon-to-be appointed executive. That executive turned out to be an old colleague of Jes Staley's. Ignoring advice from internal experts to steer well clear, Mr Staley tasked the Barclays security team with tracking down the whistleblower. That team roped in the US Postal Authority which, having been led to believe this was a criminal matter, looked for CCTV footage to identify the individual at the very point of posting the letter[1].

Learning of all this via another whistleblower, the board reprimanded Mr Staley and referred the case to the UK regulators. In an investigation lasting over a year, the FCA and the PRA found that Jes Staley had failed to act with "due care, skill and diligence" but that he remained "a fit and proper person" to lead the bank. In total, the regulators have fined Mr Staley £642,000 and Barclays have retrospectively deducted £500,000 from his 2016 bonus[2].

In our view, Mr Staley has got off lightly. He has violated his company's code of conduct: a sackable offence in many instances. In addition, the fines levied are fairly small given the gravity of the offence and the level of pay Jes Staley receives. With an annual remuneration package of £4.2m, including £1.3m in bonus and other variable pay[3], the financial penalties combined are less than Mr Staley's 2016 bonus awards. Moreover, his actions have undermined Barclays' whistleblowing procedures, an essential part of any company's risk management system. Whistleblowing can help with the early identification of improper behaviour, but the very integrity of these systems rests on employees having full assurances that their identity will not be uncovered. This is especially important in an organisation like Barclays with the LIBOR and exchange rate rigging scandals resulting in hefty fines and reputational damage in recent years.

WHAT HAVE WE DONE ABOUT IT?	WHAT ARE WE GOING TO DO NEXT?
We've used our 2017 and 2018 AGM votes to register our dissatisfaction and have held conference calls with Investor Relations and, latterly, Barclays' company secretary.	The issue for us is now that we have neither faith in the company's figurehead nor in the Board in holding him to account; what risks will this expose investors to if we remain as shareholders?
We wrote a letter to the company expressing our disappointment that, despite breaching the regulators' requirements for due care, skill and diligence, the Board continues to have 'unanimous confidence' in Jes Staley as CEO. We expected the board to take a firmer stance regarding Jes Staley's violation of the company's own code of conduct.	Our options, most likely, are further escalation of voting against Board members or taking the step of divesting our position on the grounds of governance risks.

Jes Staley is the first serving CEO to be fined by the regulator and to keep his job. Despite this, over 99% of shareholders voted for his reappointment[4]. This case, one of the most egregious in recent years, suggests there's some way to go in creating a strong culture of stewardship throughout the financial services industry.

[1]Source: https://www.ft.com/content/19dfd0c2-3e64-11e8-b7e0-52972418fec4
[2]Source: https://www.fca.org.uk/news/press-releases/fca-and-pra-jointly-fine-mr-james-staley-announce-special-requirements
[3]Source: IVIS Barclays Report for year ending 31-12-16.
[4]Source:https://www.home.barclays/content/dam/barclayspublic/docs/InvestorRelations/PrivateShareholders/2017AGM/1518736_v2_F.%20RNS%20AGM%20Votes%20Barclays%20PLC.DOCX%20-%20FINAL.pdf

STEWARDSHIP ANNUAL VOTING

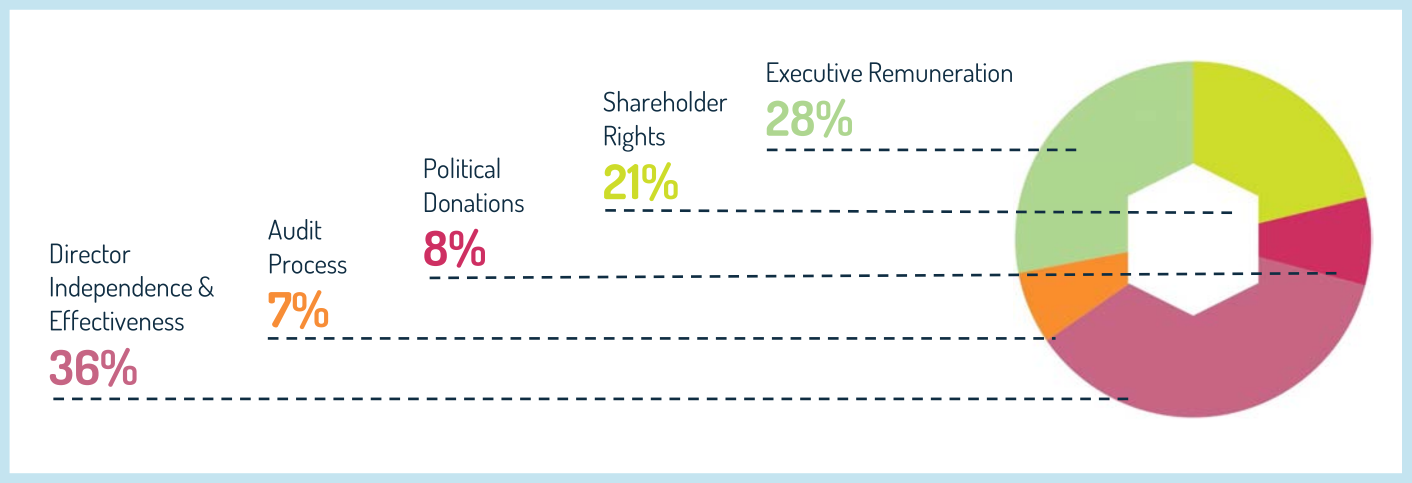
ANNUAL VOTING STATISTICS

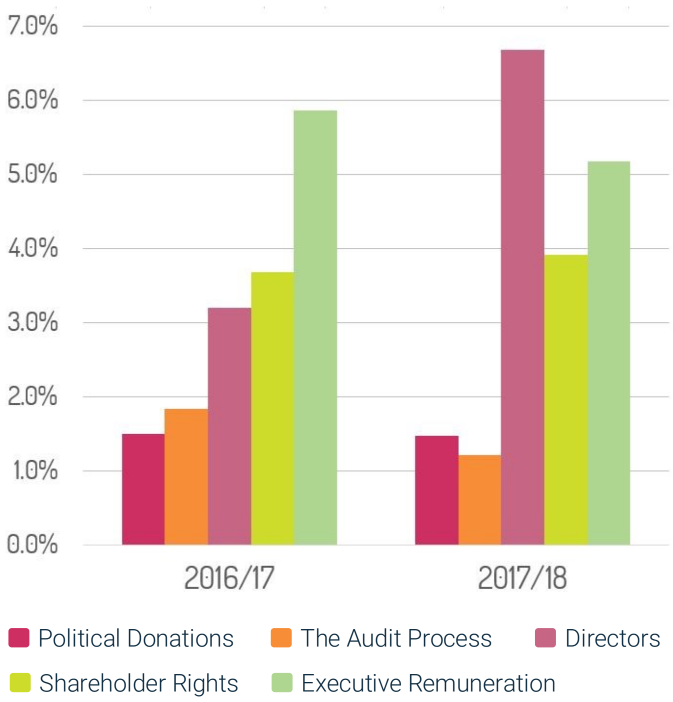
Number of resolutions where votes were cast **For**	1939
Number of resolutions where votes were cast **Against**	368
Number of resolutions where votes were **Abstained**	71

As well as sharing voting news and statistics over the past quarter, we also report every July on our annual voting data. Looking over the past year gives us an opportunity to take stock of how changes to our voting policy have affected our voting patterns.

From 1st July 2017 to 30th June 2018 we voted on **2378** resolutions. Of the resolutions voted on, **81.5 %** of our votes were cast in support, **15.5%** were against and **3.0%** were abstentions.

% OF VOTES TO ABSTAIN OR GO AGAINST MANAGEMENT OVER THE LAST 12 MONTHS





The chart (left) compares our voting record between the period under review and the previous year.

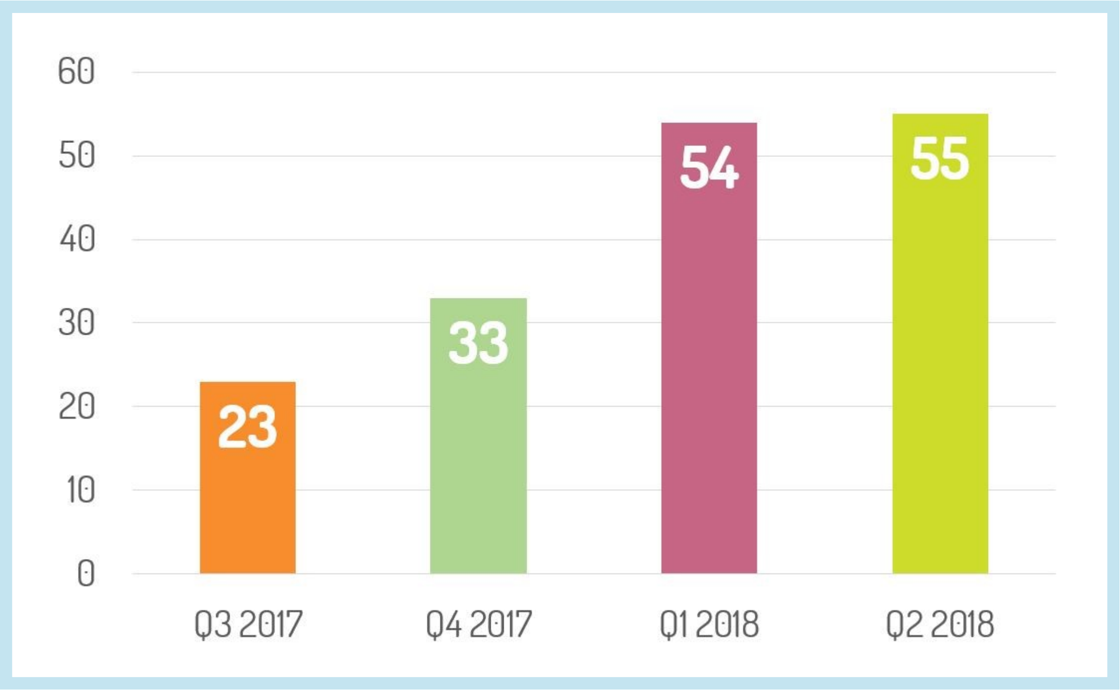
Where we opted to disagree with management recommendations, the most common reason was the reappointment of directors. This differs from last year where the most common reason was executive remuneration. Over the last year we went against the proposals of company management on **18.5 %** of resolutions; this is an increase on the previous 12 months where we abstained or voted against on **16%** of resolutions. This is due to changes in our voting criteria where we have introduced more stringent guidelines on "overcommitted" directors (i.e. individuals with a large number of directorships, which risks them spending insufficient time on each role) and remuneration policies that do not take into account ESG risks. We have also tried to do more to address the issue of boardroom diversity. In addition, a change in research provider to one that covers these issues in more detail has helped to inform our voting decisions and may also be a contributing factor to the increase in dissenting votes.

STEWARDSHIP ENGAGEMENT

ENGAGEMENT OVER THE PAST YEAR

Over the last twelve months (30th June 2017 to 30th June 2018) the investment team have organised, attended and hosted **165** meetings and calls with companies. Since the launch of the Castlefield B.E.S.T Sustainable European Fund in the last quarter of 2017, we have been in contact with many investee companies. This has seen an increase in the number of meetings conducted in subsequent quarters.

NUMBER OF COMPANY MEETINGS OVER THE LAST 12 MONTHS



In addition to meeting companies that already feature in client portfolios, we also meet prospective investments. This allows us to explore new investment propositions thoroughly. Meeting companies is an important stage in conducting the B.E.S.T analysis that is integral to the Castlefield stock selection process. By asking the leaders of companies their thoughts on Business, Environmental, Social and Transparency issues, we can paint a clearer picture of a company's suitability for our portfolios.

For example, we are currently assessing the suitability of a Spanish supermarket chain for inclusion in one of our funds. We are in dialogue with the company to understand its management of material issues such as supplier payment terms, supply chain labour rights, carbon management and its long-term exposure to other factors, such as water scarcity in crop sourcing. While we do not expect any company to have a perfect response to every question, the exercise is useful in ascertaining the company's strengths and weakness, as well as issues to pursue further should we decide to invest.

CASE STUDIES

HUMAN AND LABOUR RIGHTS

DEBENHAMS

As long-term investors, we engage companies on Environmental, Social and Governance (ESG) issues that, over time, may pose risks to our investments. As such, we have been following activity on the Bangladesh Accord for some time. The Accord was established in 2013 to address building safety in the Bangladesh apparel industry following the Rana Plaza factory collapse where over 1,000 workers died. Ahead of the Accord's renewal in May 2018, we wrote to Debenhams to press for its continued support for this important initiative that improves the safety of garment sector workers.

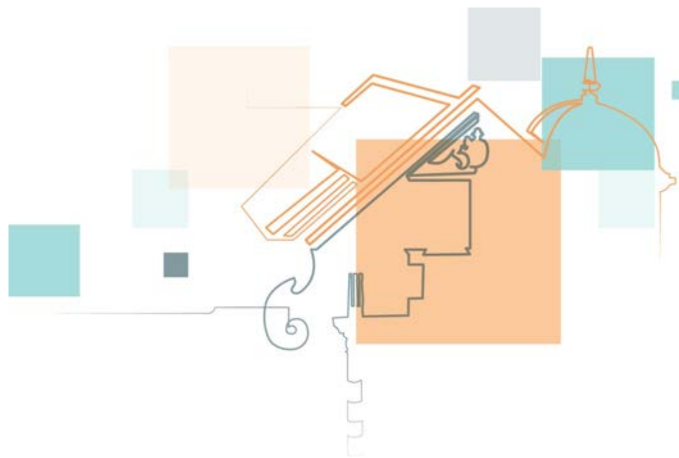
We appreciate the complexities of the Accord arrangements and understand that foreign funding alone will not deliver improved working conditions in Bangladesh. We fully recognise that the Accord's efforts need to be accompanied by greater support from the Bangladeshi authorities to enforce legislation on building safety, fire standards and labour practices. Nevertheless, departure from the Accord at this critical juncture would have posed a reputational risk for Debenhams, particularly as the stance would be at odds with the company's peer group. We were reassured, therefore, when Debenhams confirmed that it will carry on supporting the Accord. This means that all Castlefield holdings that are exposed to the garment sector have opted to offer their continuing financial support for the Accord.

(see below for image license details)

KIER

Kier are a large construction company, with some small operations in the Middle East. Over the year we contacted them to ask how they ensure that labour rights are respected as part of their operations in the region. We wanted to seek assurances that, despite the small exposure, the company is upholding its responsibilities. In November 2017, we met the head of Investor Relations at Kier to discuss this. The region is beset with difficulties surrounding labour rights and it was clear from our meeting with Kier that they have a good understanding of the issues. During the meeting we heard more about the range of measures undertaken to ensure that good labour standards are upheld at its construction sites. This includes the provision of high quality accommodation, meals with calorific content suitable for manual workers, 30 days' holiday per year and the payment of flights for migrant workers to its sites. The region is known for the kafala system, which requires migrant workers to have a work-sponsored visa. This can leave workers vulnerable to exploitation by their employer. Kier minimises this risk by facilitating the transfer of a worker from Kier employment to another company when requested.

Kier came back into the office in May 2018, where we took the opportunity to discuss the company's health and safety data and how the company links health and safety performance to executive pay.



XEROS:

Gender diversity

Over the quarter a new holding has been added to the Castlefield B.E.S.T Sustainable Smaller Companies Fund in the shape of Xeros Technology Group. Xeros have developed an environmentally friendly cleaning technology through the use of polymer beads. While a traditional wash cycle relies on large amounts of water, vigorous mechanical actions and chemicals, Xeros' beads can replace water as the primary cleaning agent and dramatically reduce the amount of water in a cycle. The process reduces the amount of chemicals needed per wash and also saves energy, as the cleaning cycle can be run at lower temperatures. The beads can be used thousands of times and are 100% recyclable. Shortly after adding the stock to the fund we were asked to vote on AGM resolutions and, despite being impressed with the environmental credentials of the company, we had concerns on some of the proposals. The Chairman is considered to be a non-independent member of the board because he holds existing options in the company. We also wanted to share our views on the importance of board diversity.

After writing to the company, we received a response from the Chairman asking to meet with us to address our concerns in person. The Chairman of the board came into the Castlefield Head Office and explained the remuneration arrangements for the directors at Xeros. We were satisfied by the explanation and felt we could support the management proposals. We also discussed the importance of diversity. He agreed with the Castlefield stance that greater diversity reduces the likelihood of "groupthink" which can have a negative impact on innovation. We continue to be impressed by the company and their approach and, as long-term investors, look forward to building a constructive relationship on behalf of clients.

CELLO HEALTH GROUP:

Director independence and gender diversity

Cello are a consultancy firm that focus on the heath and pharmaceutical sectors. It is held within the Castlefield B.E.S.T Sustainable UK Smaller Companies Fund. We contacted the firm ahead of their AGM to discuss issues concerning director independence and diversity on the board. Two Non-Executive Directors (NEDs) had both served on the board for 13 years. This exceeds the recommended tenure outlined in the UK Corporate Governance Code of nine years. In addition, their tenures were concurrent with that of both the CEO and group finance director, meaning independence was further compromised. We also raised concerns about the lack of diversity on the board.

Prior to the AGM the two long-serving NEDs stepped down, which assuaged our worries surrounding independence. We received a response from the group finance director to say that in the search to find appropriate replacements, diversity is an ongoing consideration. Moreover, in a subsequent meeting with the CEO, he not only detailed the new business strategy but also referred to our letter and the importance of diversity. He further emphasised that, going forward, diversity will play a factor in board composition. We are watching with interest to see if this commitment will be borne out in the replacement NED appointments.

GENDER DIVERSITY SYMPOSIUM 2018

On 19th June, Castlefield welcomed friends of the company to the Manchester Art Gallery for our second summer event. The event was called "VOTE 100: Gender Diversity and Investment" and the aim was to explore the topic of diversity within business and investment. As a Mancunian company we are aware of the role that the city and its people played in ensuring The Representation of the People Act was passed in 1918. We wanted to celebrate this centenary and applaud the progress society has made, whilst noting the challenges we still face.

John Eckersley, introducing the event.

John Eckersley, Managing Partner of Castlefield, introduced the event. He recognised the importance of Castlefield becoming a signatory of the Women in Finance Charter over the last year and highlighted the good gender balance that the company has achieved throughout the organisation. However, he also drew upon the findings of a government-backed review which found that, despite a major drop in the number of top companies with all-male boards, many are still refusing to move with the times. Before the first presentation began, John reminded us that it was in Manchester Art Gallery in 1913 that suffragettes took hammers to works of art for their cause. He urged attendees to leave their hammers at home and instead opt for "discussion not destruction" on this occasion.

Panel discussion led by Olivia Bowen.

The main presentation of the evening was delivered by Dr Lara Bianchi from the Alliance Manchester Business School (AMBS). Lara is a Research Associate and Coordinator at the Business and Human Rights Catalyst and presented her work on women workers in global supply chains. She talked about the transformative power of business in achieving social justice for women workers by rectifying systemic inequalities. She spoke of the various challenges faced by global businesses when managing human rights risks, which are particularly gendered in some industries and regions, and how companies can mitigate those risks. She encouraged honesty about the problems and collaboration between businesses, public bodies and NGOs. She finished by sharing the business benefits of better protection of women, stating that "raising the status and respecting the dignity of women workers leads to increased productivity, improved quality, lower turnover of staff and market expansion."

Following this presentation there was a panel discussion led by Castlefield Financial Adviser, Olivia Bowen. She touched upon the startling findings of the 2017 World Economic Forum Gender Gap Report that the gender gap is widening and, at the current rate of progress, it is estimated that gender parity across the world will take over two centuries to achieve.

Panellists included another academic from AMBS, Professor Ser -Huang Poon. Professor Poon presented evidence that female corporate leadership is associated with fewer human rights violations, and child labour in particular. She also shared research on US funds, which indicated that there is no difference in performance between male and female managed funds when there is only a single manager. For team managed funds, her evidence suggests that adding women to the team helps to improve the corporate social responsibility quality of a portfolio. It was useful to see the data that supports the idea that increased gender diversity offers benefits both to businesses and investment teams.

Other panellists providing food for thought were Claudia Quiroz, investment director at Quilter Cheviot Investment Management, and Ita McMahon, responsible investment analyst at Castlefield Investment Partners. Claudia shared experiences from her career in the industry. Women are under-represented in fund management (just 13% of fund managers in the UK are female[1]) so it was great to hear her perspective as a successful female fund manager and the advice that she gives to women on how to progress within the industry.

Claudia, Olivia and Roisin at the drinks reception.

Ita spoke about Castlefield's engagement with companies on gender diversity. Despite the discouraging comments from some business leaders in the press of late, Ita was able to share examples of recent conversations with investee companies that paint a more hopeful picture. When raising the issue of diversity, Castlefield has found that often there is an understanding of the strategic benefits a more diverse team can bring.

Ita and Claudia were of the view that, from their experience of meeting with company boards, the issue of gender diversity

Guests enjoy the reception in the Victorian Gallery.

could be used as a barometer for how open they would be to tackling other social and environmental issues. This was supported by Ser-Huang's research which indicates that more gender diverse management teams are connected to reduced levels of controversy.

The question and answer session prompted an interesting discussion on whether social media helps or hinders progress by creating short-term publicity on social issues rather than helping to incite prolonged campaigns for change. Ita responded that, even though a specific hashtag may not grab headlines for long, the reputational damage they can cause shifts norms over the longer term.

Our event was rounded off with drinks, canapes and the opportunity to participate in a guided tour of the Victorian Gallery. Our tour guide picked a very apt section of the gallery to show guests. The paintings damaged by the suffragettes Annie Briggs, Evelyn Manesta and Lillian Forrester in their outrage have been restored and are on display in the splendour of the beautiful main building. A fitting end to a thought provoking evening.

[1]https://www.moneyobserver.com/our-analysis/13-top-female-fund-managers-who-hit-target

COLLABORATIVE ENGAGEMENT: AN UPDATE

FAIRR

Castlefield joined the Farm Animal Investment Risk and Return (FAIRR) initiative over the quarter. This initiative conducts research into key ESG risks associated with animal agriculture and links this to financial performance. The FAIRR Initiative aims to educate investors on the risks and opportunities associated with livestock production. Through their publications and collaborative engagement work, FAIRR supports investors to analyse the potential impact of these issues as part of their investment processes. We are pleased to be part of this worthwhile initiative. We look forward to adding the Castlefield name to company engagements as well as using the research produced by the initiative as part of our internal ESG analysis.

WORKFORCE DISCLOSURE INITIATIVE

Pilot Year Report Launch

In May 2018 the Workforce Disclosure initiative (WDi) launched its first report. We've been involved with the initiative for the past year and are keen to continue supporting its work. The WDi is a collaborative engagement programme where investors urge companies to publish data on their workforce. Co-ordinated by the campaign group ShareAction, it is a project that aims to ensure companies present their human capital information in a uniform way to allow easy comparisons to be made between different companies. The initiative is aligned with The United Nations Sustainable Development Goals, particularly goal 8 which calls for 'decent work for all'. Shareholders are well-positioned to make a difference by encouraging companies to improve their reporting, as we recognise that disclosure and transparency are important first steps to achieving fairness for company workforces. At the launch event, the keynote speech was delivered by Harriett Baldwin MP, Secretary of State for International Development, which has part-funded the initiative. As a former investment manager, she spoke about the power of investment decisions and the importance of Sustainable Development Goal 8 in eliminating poverty.

Another Sustainable Development Goal that we think the WDi is aligned with is Goal 5- "Gender Equality". One of the key issues covered by the WDi is the gender balance within supply chains, as female workers are often disproportionately impacted by low wages, excessive working hours and exploitative recruitment practices. Encouraging companies with global supply chains to monitor and report on gender balance at different seniority levels helps them to identify potential human rights risks and, over time, mitigate them. We touched on this as part of the Castlefield Gender Diversity Symposium.

The report's key message to those companies contacted by the initiative was that they want to see action, not just a statement of intent. They pointed out that many companies make the statement that their employees are their greatest asset but evidencing that in how they take care of them and therefore produce real outcomes is less common. The message for investors was to keep mentioning the WDi and the importance of improved disclosure of workforce data in their conversations with companies.

RESPONSIBLE INVESTOR CONFERENCE

In June, members of the Castlefield Investment Team attended the European Responsible Investor Conference in London. It was a brilliant opportunity to catch up with the latest developments and schools of thought within responsible investment. The first day started with plenaries that covered subjects as disparate as the rise of populism and the potential for a post-antibiotic world. There followed breakout sessions which looked in more detail at subjects such as corporate tax, governance and the #metoo campaign.

Our team was invited to join the FAIRR initiative at the gala dinner, which celebrated the achievements in ESG reporting of asset managers and owners. The next day there were further breakout sessions on engagement, food technology, natural capital and stewardship. The final speeches of the conference focused on the importance of considering ESG risks when investing pensions and how the private sector will play a pivotal role in achieving the UN Sustainable Development Goals by 2030.

This is the second year that Castlefield has sent delegates to the event and we continue to be impressed by the quality and ingenuity of the ideas shared.

YOUR TEAM

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Chartered FCSI
Managing Partner

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ASIP CFA
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IMPORTANT INFORMATION

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