

STEWARDSHIP
REPORT
Q4 2018



THE THOUGHTFUL INVESTOR

VOTING Q4 2018

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 (which should be linked to performance), director independence (which is crucial for objective board oversight) and auditor appointment (regular auditor rotation reduces the risk of fraudulent activity). A key part of this commitment is our voting activity. The application of our voting policy ensures we take a uniform approach to decision-making.

RESOLUTIONS

Number of resolutions where votes were cast For	176	91.8%
Number of resolutions where votes were cast Against	13	6.7%
Number of resolutions where votes were Abstained	3	1.5%

Over the quarter we voted on **194** resolutions for **21** meetings. Of the resolutions voted on, **176** of our votes were cast in support, **13** were against and **3** 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.

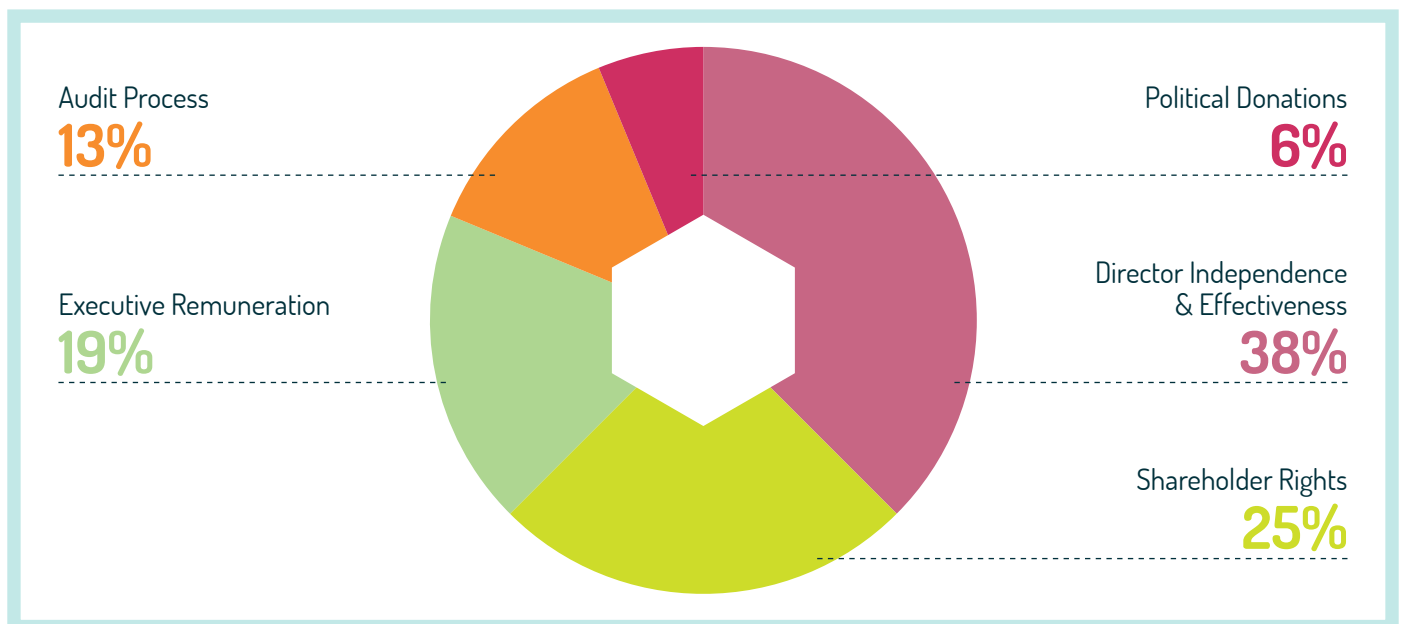
The fourth quarter of the year was relatively quiet in terms of voting opportunities, with fewer meetings than the previous three. Our most common reason for abstaining or voting against management remains due to director appointments, which made up 38% of votes against and abstentions. Executive Pay accounted for 19% of votes against management recommendations, this is the same percentage as the previous quarter. Votes on remuneration is a topic where Castlefield takes a firm stance compared to many of our industry peers. We vote against pay packages that are not aligned with interests of all stakeholders, including employees, and use whether the company pays the Real Living Wage as a factor for determining excessive pay.

We always vote against resolutions proposing to hold general meetings at 14 days' notice as we feel that this is not a sufficient amount of time for all shareholders to be able to consider resolution proposals carefully. Limiting preparation time ahead of a meeting is an infringement of shareholder rights and as a consequence we contradict management teams that propose this time frame. Over the fourth quarter of 2018, 25% of votes cast against management related to shareholder rights.

The audit process is critical to providing checks and balances. External auditors must be independent and impartial in order to perform this function. A long auditor tenure or large payments to auditors for non-auditing services are cause for concern and may cause us to call independence into question. Over the quarter we were pleased to note that this position seems to be entering into the mainstream. Two large audit firms, KPMG and PwC, responded to the Competition and Markets Authority to say that they will no longer conduct consultancy work for companies where they also act as auditor. We approve of this measure as it serves to improve auditor independence and help to ensure that this critical role is not compromised by a cosy relationship between them and their client company. Of the votes against management, 13% were on the basis of auditor independence.

Finally, a key issue which we often vote on is that of political donations. We do not view political donations as an appropriate use of capital and, as such, we always vote against resolutions requesting shareholder permission for this activity (6%).

% OF VOTES TO ABSTAIN OR GO AGAINST MANAGEMENT IN Q4



CASE STUDY

During the quarter, we became signatories of the FAIRR Antibiotics Statement. We have long been supporters of the Farm Animal Investment Risk and Return organisation, and this is the latest step in ensuring that the environmental and social issues associated with factory farming are part of our investment process. The Investor Statement on Antibiotic Stewardship asks investors to do their part in asking food companies to drive progress on the critical issue of overuse of antibiotics. Worldwide, most antibiotics are used in farm animal production systems, often to promote growth and to prevent the spread of disease among animals housed in unsanitary conditions and in close confinement. The continued prophylactic use of antibiotics in food production systems is named by the World Health Organisation as a factor that contributes to antimicrobial resistance. The UK Chief Medical Officer, Sally Davies, stated that society faces the “end of modern medicine” if we do not regulate the use of antibiotics more effectively. The antibiotics enter our food system to the detriment of human health. This is due to the potential for transmission of antimicrobial resistant pathogens to the human population, which means we may lose the ability to treat even the most minor infections.

MORRISONS

Morrisons is a supermarket chain held within the Castlefield B.E.S.T Sustainable Income Fund. Due to our new status as signatories of the FAIRR Antibiotics Statement, we felt it necessary to contact the company in order to request more information on their policies concerning antibiotic use within agricultural supply chains. We have been impressed with Morrisons’ commitment to corporate responsibility and the level of transparency provided to customers and shareholders, hence the inclusion of the company within the Castlefield B.E.S.T Sustainable Fund Range. The company do already have a policy in place regarding antibiotic use. However, given the seriousness of the issue, we wished to gather further information on reduction policies and the publication of data in the future to improve transparency on their antibiotic targets.

Morrisons were able to reply to our letter in a timely manner and we appreciated their full response to our questions. Morrisons confirmed that they had been able to eliminate or highly restrict the use of antibiotics that are deemed critically important to human medicine in their milk, chicken and eggs supply chains. By the 1st January 2019 Morrisons committed to eliminating the use of critical antibiotics within pork production. We were particularly interested in the use of the antibiotic Colistin. The dwindling pool of antibiotics available, due to rising levels of resistance, means it is important to limit the use of Colistin in order to retain its efficacy. Morrisons confirmed that they have eliminated Colistin use within their poultry producers and “virtually none” was used

in lamb, beef and dairy production during 2018. Morrisons also mentioned that they use the standards set by external groups in order to monitor suppliers for adherence to best practice. We felt that the use of third party guidelines was particularly impressive and indicates a commitment to addressing this global issue. We were pleased by their response and will continue to keep a close eye on this issue not only in the case of Morrisons, but across the industry as a whole.

"By the 1st January 2019 Morrisons committed to eliminating the use of critical antibiotics within pork production."

NEWS

THE CORPORATE HUMAN RIGHTS BENCHMARK

On the 12th of November, the Corporate Human Rights Benchmark (CHRB) launched their second report. The benchmark assesses the policies, processes, and practices of the biggest companies in the world. The organisation analyses the way in which companies operating in the extractive, apparel and agriculture sectors systematise their human rights approach and how they respond to serious allegations. The results of their research are then used to create rankings. Castlefield have used these rankings and the underlying data to inform our own research and steer us to the most pressing human rights risks that our investee companies face. In July, we participated in a consultation where we offered feedback on how the data could be presented to facilitate the use of their findings by investors. We were pleased to see our suggestions incorporated into the latest benchmark to allow the results to be more easily incorporated into our investment process.

This year the benchmark was applied to 101 companies across the three industries mentioned above. The latest results show that there is still a great deal of work to be done when it comes to business and human rights. The average score of all companies included in the benchmark was a mere 27%. The results indicate that more companies make commitments on human rights than those who evidence implementation. In fact, 40% of companies assessed in the 2018 Benchmark scored 0 on human rights due diligence indicators. However, there are still signs of progress and we were pleased to see that investee companies Marks and Spencer and Unilever were amongst the top performers.

We look forward to further positive developments from the benchmark in years to come. Plans are already underway to publish a best practice guide in 2019 and the intention is to share this guide with companies to enable them to improve their human rights policies and activities. There was further exciting news that the 2019 benchmark will also assess companies associated with the Technology sector; these results will appear in next year's report. In the meantime we will continue to do our part as responsible investors by engaging with companies on the topic of human rights.

The launch event featured interesting speeches and discussions and was extremely helpful for our investment team to participate in emerging debates within the field of business and human rights. One key takeaway from the afternoon was that stakeholders should not lose sight of what the Benchmark is trying to achieve by just looking at the numbers - we understand that human rights issues are incredibly complex and quantifying them to form the Benchmark is no easy task. However, with the belief that companies operate in a competitive market, the use of a benchmark will hopefully encourage a "race to the top" in terms of human rights performance.

"40% of companies assessed in the 2018 Benchmark scored 0 on human rights due diligence indicators."

NEWS

INVESTOR ADVISORY GROUP OF THE FINANCIAL REPORTING COUNCIL

Earlier this year, Partner and Head of Research at Castlefield, David Gorman, was invited to join the Investor Advisory Group of the Financial Reporting Council (FRC). David has attended the Group's initial meetings and is an advocate for smaller firms and those based outside of London, in order to provide a different viewpoint.

The FRC's mission is to promote transparency and integrity in business. It sets the UK Corporate Governance and Stewardship Codes. These are the codes that we use as a "gold standard" when assessing how businesses are managed and they inform our own voting guidelines and analysis. Due to the mission of the Council and the quality of the codes they produce, we were delighted when David was asked to participate in the new working group.

The role of the Investor Advisory Group (IAG) is to provide insight into key areas of concern and emerging risks from the perspective of investors. This will improve the effectiveness of the FRC through useful feedback for the targeted improvement of current projects. We are proud that David will be able to share the work the Castlefield are doing in the field of governance and that we can help influence FRC policy.

THE ACCESS TO MEDICINE INDEX

Over the last quarter of 2018, The Access to Medicine Foundation launched its 2018 report on the performance of pharmaceutical companies in providing worldwide access to healthcare. The rankings produced are compiled into The Access to Medicine Index. The purpose of the Index is to place pressure on pharmaceutical companies that have the power to reduce the number of people globally that cannot access the treatment they need because the vaccines, medicines and medical tests are either unavailable or unaffordable. These companies have a critical role to play in improving access to medicine and the Index tries to catalyse change within the pharmaceutical industry by making access to medicine a business priority.

The Index is published every two years and analyses the top 20 research-based pharmaceutical companies. The companies are then ranked according to their efforts to improve access to medicine in developing countries. The Foundation uses 69 indicators relating to 77 diseases and conditions found across 106 countries. The Index highlights examples of best practice and areas where action is needed to improve performance against the indicators used in the analysis framework.

The seven categories used to rank the companies are:

- General Access to Medicine
- Management Market Influence & Compliance
- Research & Development
- Pricing, Manufacturing & Distribution
- Patents & Licensing
- Capacity Building
- Product Donations

Within each category there are sub-rankings with detailed breakdowns of each score. GlaxoSmithKline (GSK) has retained its first place position for the sixth consecutive Index. According to the Access to Medicine Foundation the company continues to outperform peers in terms of being the most access-oriented pharmaceutical company. GSK is held within the Castlefield B.E.S.T Sustainable Income Fund and we were pleased to see that the Foundation continues to praise the company for their efforts and that it has maintained its top position in the Index.

THE WOMEN IN FINANCE CHARTER, ONE YEAR ON

In **November 2017**, we officially became signatories of the **Women in Finance Charter**. This HM Treasury initiative is designed to encourage greater numbers of women at senior levels of the financial services sector and address the “talent gap” caused by disproportionately large attrition rates for women compared to their male colleagues. In order to become signatories, we have committed to an equal gender split within key managerial roles - we define this as individuals with line manager responsibilities and therefore those who have a say in important personnel and recruitment decisions. Most financial services companies who are signatories of the charter are aiming to have 30% of women into senior management roles over the next five years. However, at Castlefield we are already well ahead of our industry peers, **with women accounting for over 64% of our key managers**. Whilst the rest of the industry is struggling to correct their gender imbalance we have committed to maintaining parity at the least and are currently surpassing this goal.

In the year that has passed since Castlefield first became signatories of the Charter, we have not only committed to the Charter pledges but have also furthered our position as gender diversity pioneers within the industry through a variety of other activities. In **February 2018**, we put together our response to a consultation on the **Corporate Governance Code**. As part of our response to this consultation, we advocated greater reporting on diversity in the workforce and expressed our belief that diversity benefits business and society. This is also evidenced through our voting guidelines which we implement throughout the year. We look to use shareholder meetings as an opportunity to vote against the Chairperson of any company board without a diversity policy. There's a growing body of research indicating that companies with no gender diversity at board level underperform against their more diverse peers. As a consequence we will look to engage with companies that do not have sufficiently diverse boards to stress the importance of diversity to businesses.

The **8th of March** is **International Women's Day** and this year we marked it with a presentation by Nicola Pike and Professor Ser Huang Poon from the Alliance Manchester Business School. Our guests spoke to a packed Castlefield board room about the progress of women in society and particularly within financial

services. Ser Huang presented her recent paper on the positive impact of gender diversity within the fund management industry and on the boards of businesses.

On the **19th of June**, Castlefield hosted our summer event called “**VOTE 100: Gender Diversity and Investment**” and the aim was to explore diversity and its role within responsible investment. The main presentation of the evening was delivered by Dr Lara Bianchi from the Alliance Manchester Business School. Lara 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.

Throughout the year, Castlefield had several individuals named as finalists in various investment award schemes. The firm as a whole was announced as a finalist in the “Support Excellence Award” category of the **Investment Week Women in Investment Awards** because we have supported and facilitated initiatives to improve diversity within the organisation. We were pleased to be recognised for our efforts in this area. Kate Hewitt, Pooja Shah and Chloe Smith were shortlisted in the “Rising Star” category of the **Women in Finance Awards**. Our latest winner was Summayya Mosam who we were delighted to see recognised as the Role Model of the Year at the 2018 Investment Week, Women in Investment Awards. These awards offer the opportunity to celebrate the achievements of those who are driving the investment sector towards equal representation. Throughout the business we have recruited several impressive female candidates over the last few years. We look forward to supporting them throughout their careers by providing the type of working environment that allows diversity to thrive.

MEET THE TEAM

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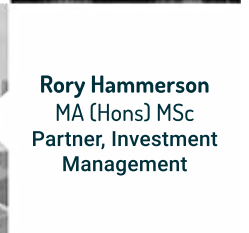
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