CASTLEFIELD CORPORATE GOVERNANCE & VOTING GUIDELINES

CASTLEFIELD

THE THOUGHTFUL INVESTOR

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THE BOARD

1. The roles of Chairperson and CEO should be separate. There are some regions where the combination of these roles is common (the US, for example) but this is not best practice and should generally be voted AGAINST.

2. The majority of the board should be non-executive directors (NEDs) who are deemed independent. In order to be considered independent the NEDs should not have been in the role for longer than 9 years and should not have been an employee of the company in the last 5 years. We apply these guidelines across all our holdings, irrespective of geography. Directors should have appropriate skills and should not be overly committed.

   We use the following scoring system to determine if a director is overly committed. The maximum allowable score is four. We will vote AGAINST directors that score above four points, unless sufficient detail of the required time commitments is provided.

ROLE	VALUE
Executive at listed business	3
Executive at private business	3
Executive Chairperson	3
Non-executive Chairperson	2
Non-executive Director	1
Non-executive Chairperson (Investment Trust or equivalent)	1
Non-executive Director (Investment Trust of equivalent)	0.6

3. If NEDs are recognised as not meeting independence criteria by the board, do not sit on any committees and do not skew the overall balance of the board then they can be voted FOR. However, if a NED is felt not to be independent and is not recognised by the board then we shall vote to ABSTAIN on the reappointment of the NED. If the NED that is not independent and not recognised by the board as such sits on Committees and the composition of the board is skewed as a result, then the reappointment of the NED should be voted AGAINST. When assessing the overall ratio of NEDs to executives then any/all NEDs that do not comply with the UK Governance Code parameters for independence should be excluded. The effectiveness of the Nominations Committee should also be called into question.

4. Directors should attend all board and any relevant committee meetings. Best practice would be to publish attendance. A director that attends fewer than 75% of meetings should have the resolution for their re-election voted AGAINST.

5. It is essential that effective and independent Audit, Remuneration and Nomination Committees are in place. If this is not the case, then the re-election of the Chairperson should be voted AGAINST. It is desirable that an independent Risk Committee is also established. This should also be made up of independent NEDs. In the case of Systematically Important Financial Institutions (a financial institution whose failure could trigger a financial crisis e.g. HSBC) the re-election of the Chairperson should be voted AGAINST if there is no Risk Committee in place. All committee members should meet independence criteria.

6. Directors should stand for re-election annually. The election of directors should require a majority vote. We maintain a register of directors that have overseen corporate failure or serious corporate malpractice and will vote AGAINST any director that appears on this list.

7. There should be a transparent diversity policy in place for the board. This should be detailed in a separate section of the Report and Accounts. If this is not the case, then resolutions to reappoint the Chairperson may be voted AGAINST. We may choose to vote AGAINST members of the nomination committee if we feel that there has been a lack of commitment by the board to address diversity in all its forms at executive and board level as well as within the wider workforce. We monitor gender diversity at senior levels and, as a member of the 30% Club, we expect 30% of the board to be female. Where this is not the case, we expect companies to provide an explanation. We will also be taking a closer look at diversity among executive directors as it is often here where Board diversity is lacking. In addition, we monitor companies and their policies on ethnic diversity. We expect companies to demonstrate their commitment to the recommendations set out in the Parker review.

   We will vote AGAINST the chairperson of the nominations committee where FTSE100 companies have not met the Parker review recommendations, or not provided a clear statement on progress towards meeting the recommendations.

   For FTSE 250 companies, we will vote AGAINST the chairperson of the nominations committee if they have not provided information on their progress towards meeting the Parker review recommendations.

8. We expect executive board members to comply with shareholding requirements set by the company in order to be aligned with the interests of shareholders. Where executives have not demonstrated their commitment to reach the minimum shareholding level prescribed by the board within a reasonable timeframe, we will vote AGAINST the relevant executive director's reappointment. Any shares where vesting is subject to performance thresholds should not be counted towards this requirement.

REMUNERATION

1. Remuneration schemes should require executives to hold shares in the company for at least 5 years in order to align executives with the interests of all shareholders. If a remuneration report does not require this, it should be voted AGAINST. Share incentive schemes should not impact upon the existing shareholders, if a share incentive scheme breaches dilution limits of 10% in 10 years for all schemes then it should be voted AGAINST.

2. Variable pay should be based on delivery of good long term performance. The performance should be measured over a period of at least 3 years. The performance targets should be based on a scale rather than a single performance target and the targets should be aligned with the strategy of the business. The re-election of the Remuneration Committee should be voted AGAINST if variable pay is not aligned with the long term business strategy.

3. In industries with significant health and safety, environmental or social risks, we expect executive remuneration arrangements to include performance measures to manage these risks. We will vote a remuneration report if there has been significant mismanagement of these risks during the period but no reduction to executive pay awards.

4. Performance criteria for executives should be stretching. The executives should not be rewarded for achieving less than median performance or if an inappropriate peer group is used to measure performance AGAINST. If performance targets are inappropriate the remuneration report and the Chairperson of the Remuneration Committee should be voted AGAINST.

5. Where undisclosed "personal targets" are used as a performance measure the resolutions should be considered on a case by case basis and if deemed inappropriate voted AGAINST. The quantum of variable pay determined by this performance measure should be taken into account when voting.

6. There should be an adequate "clawback" policy in place, if not then the approval remuneration report should be voted AGAINST.

7. The gradual phasing of share incentives and option grants helps to reduce share price volatility. If over 50% of the share incentives and option grants are not phased over a total vesting and holding period of 5 years then the Chairperson of the Remuneration Committee and the Remuneration Report should be voted AGAINST.

8. We expect executive directors to hold 200% of base salary in shares or their shareholding requirement in full, whichever is the lesser, for at least two years after leaving their post.

9. All discretionary payments should be transparent and justified. A resolution to approve the Remuneration Report where this is not the case should be voted AGAINST.

10. The remuneration report and the Remuneration Committee should be voted AGAINST where substantive amendments have been made to remuneration schemes without justification

QUANTUM OF PAY

1. Executive remuneration should be in line with performance. If there is an increase in executive pay without a reasonable explanation, then the remuneration report and the Chairperson of the Remuneration Committee should be voted AGAINST.

2. Any increases in executive base salary should be in line with salary increases across the company. If this is not the case the resolution proposing such an increase should be voted AGAINST.

3. Where salary or bonus increases are justified based on the size or presence in a particular index alone, the remuneration policy should be voted AGAINST.

4. Where executive base salary is in excess of between 30-35 times the UK median salary and 60-65 times that of the lowest paid employee, executive pay should be deemed excessive and remuneration should be voted AGAINST. The lower multiple should be enforced where the company in question is not a living wage employer.

5. Where variable pay schemes (LTIP and bonus schemes in aggregate) amount to greater than 200% of basic salary the scheme/remuneration should be voted AGAINST. We will continue to review the cap on variable pay on an ongoing basis.

6. Resolutions to approve remuneration reports that seek to implement a remuneration scheme including transaction, termination, and change in control or recruitment bonuses should be voted AGAINST. Similarly, there should be a vote AGAINST approval of a remuneration report where an executive director has a service contract of more than 1 year (unless in exceptional circumstances).

7. Where pension provisions for executives are based on more than just basic pay or are deemed far in excess of those available to the wider workforce we will vote AGAINST resolutions concerning remuneration. We may also vote AGAINST where pension contributions are paid out entirely in cash.

8. If a resolution to approve remuneration has been voted AGAINST it is necessary to consider the effectiveness of the Remuneration Committee and in this case it may be appropriate to vote AGAINST the re-appointment of the Chairperson of the Remuneration Committee. We will apply a process of escalation to voting on the Chairperson and members of the Remuneration Committee, where the remuneration policy is deemed unsuitable we may choose to ABSTAIN on the reappointment of the Committee. This escalation process will result in a vote AGAINST all committee members should the policy be deemed unsuitable on two consecutive occasions.

9. It is considered best practice to publish the pay ratios of Chief Executive salary to that of median salary of company employees and the Chief Executive salary to that of the lowest paid employee (this should include contract workers).

ACCOUNTS & AUDITING

1. The Audit Committee and approval of the Report and Accounts and should be voted AGAINST if there is no statement of responsibility for accounts, an auditors' reporting responsibility and a statement of going concern.
2. Voting AGAINST members of the Audit Committee should be considered on a case-by-case basis in the event of an adverse opinion by the auditor.
3. The board's statement of internal controls should contain appropriate levels of detail if not the approval of the Report and Accounts will be voted AGAINST.
4. Auditors should be fully independent and have no significant connection to the directors. The auditors should not have been in place for longer than 10 years. If these criteria are not met, then a resolution to reappoint the auditor should be voted AGAINST. We will also vote AGAINST the remuneration of auditors who conduct in excess of £10,000 of non-audit work, in addition to the main audit, without compelling reason. Such circumstances include tasks that the auditor is required to carry out for legal or contractual purposes, e.g. for M&A activity or to satisfy lenders' requirements. In all circumstances, we expect companies to provide a description of the work undertaken.

CAPITAL STRUCTURE & SHAREHOLDER RIGHTS

1. The issue of new shares should not exceed a third of the issued ordinary share capital, or in the event of a rights issue, two thirds of issued ordinary share capital. Vote AGAINST a resolution to issue new share capital if these conditions are not met.
2. If there is an attempt to issue new shares without pre-emption rights the amount should not exceed 5% of issued ordinary share capital in one year. An additional 5% of issued ordinary share capital may be issued without pre-emption rights in one year if the company intends to use this permission in connection with an acquisition or specified capital investment. The company should not intend to disapply pre-emption rights up to 7.5% of issued share capital in 3 years. If this amount is exceeded, vote AGAINST the resolution. Best practice would be to provide an explanation as to why the board are seeking to disapply pre-emption rights even if they do not intend to exceed these limits.
3. Share buybacks should not exceed 10% of the issued ordinary share capital. If a resolution seeks to repurchase shares totalling more than 10% without sufficient justification it should be voted AGAINST.
4. Corporate restructuring resolutions should be considered on a case-by-case basis. Directors who put take over defences in place (such as poison pills) should be voted AGAINST.
5. Resolutions that seek to remove or reduce shareholder protections should be voted AGAINST.

ENVIRONMENT & SOCIAL ISSUES

1. The Report and Accounts should detail the measures put in place to mediate environmental and social risk. For FTSE250 companies, larger AIM Listed and larger European companies, if there is no mention of climate risk in the Report and Accounts then we will vote AGAINST both the Report and Accounts and AGAINST the audit committee chairperson. The rationale being that the auditor should not approve Reports and Accounts that do not reference climate change risks.

   For smaller AIM listed and smaller European companies, we will be considering voting action in the near future on climate risk disclosures. However, we reserve the right to vote AGAINST the Report and Accounts of any company that is a heavy emitter, irrespective of size, if they fail to disclose adequate information on emissions levels and climate risk.

2. Where possible we should look to collaborate with other investors to engage with companies on environmental and social issues as a way of improving the response rate from companies.

3. Where companies operate in a sector with particularly low levels of diversity and high female attrition rates, it is necessary for these companies to evidence that they are taking meaningful action to address the talent gap. If we believe there to be insufficient disclosure, in addition to our option to vote AGAINST relevant resolutions, we intend to challenge the board about the policies and strategies in place as well as their effectiveness, and encourage more transparent disclosure.

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