

# Castlefield External Advisory Committee Meeting

## MEETING SUMMARY

**Committee Attendees:** Kevin Davies, Rebecca O'Connor, Geoff Sides, Matthew Ayres

**Castlefield Attendees:** Simon Holman, Ita McMahon, Amelia Overd, David Beggs

### Discussion: Divestments (Balfour Beatty and Ubisoft)

SH outlined the reasons behind two divestments recently made from the Castlefield B.E.S.T Sustainable Fund range before a wider Committee discussion.

Balfour Beatty, a leading international infrastructure group, was held in the Castlefield B.E.S.T Sustainable Income Fund. In 2019, we became aware of issues in the US related to facilities management for Air Force housing. Allegations of falsified maintenance records were made,<sup>1</sup> and we closely monitored the situation. Subsequent reporting revealed that this was not an isolated incident and it had been sanctioned by some supervisors. At this point we saw that the failures were likely due to serious cultural issues and therefore chose to divest immediately.

The Committee's discussion covered:

- Although reported in the financial news, the allegations were not widely covered in mainstream media.
- The timeline of our divestment – the decision to divest was made very shortly after we investigated the incident following the second set of articles.
- Engagement – in this instance we did not engage with the company as the decision to sell was made quickly and we didn't see value in speaking with the company.

**Ubisoft**, a video games publisher, was held in the Castlefield B.E.S.T Sustainable European Fund. The team had recently been re-evaluating the investment case following a profit warning.<sup>2</sup> While not specific to any Ubisoft game, recent game launches have seen a trend in realism, particularly in war-based, shooter-style games. While not the singular reason for divestment, it was discussed amongst the team as a contributing factor.

The Committee's discussion covered:

- The difficulty in shielding children from violent video game content.
- Screening for "pornography and violent content" could exclude certain video game publishers. In practice it can be hard to exclude "violent content" specifically.

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<sup>1</sup> <https://www.reuters.com/investigates/special-report/usa-military-maintenance/>

<sup>2</sup> Castlefield Meeting – 25/10/19

## **Policy Review:** Castlefield Voting Guidelines 2020

IM provided a brief background to the updating of the voting policy, which is done on annual basis. All the changes were proposed by various members of the team who put forward their case to Castlefield's internal Stewardship Committee (SC) for debate. The Committee were supportive of all of the proposed changes:

**Gender Diversity** – The SC propose to change the policy wording on diversity to include the expectation of 30% gender diversity at Board level and to address executive/senior management gender diversity.

**Ethnic Diversity** – The SC propose to add wording to reflect our expectation that companies should demonstrate commitment to addressing the findings of the Parker Review.

**Abstentions** – Although rarely used, the SC decided to retain the ability to abstain as it allows the opportunity to escalate and or engage with management and be more flexible when things are moving in the right direction. The Committee accepted this seemed to be a fair way to implement it.

**NED Tenure** – The SC propose to add wording that would state that we will apply independence and tenure limits from the UK Corporate Governance Code across all holdings regardless of geography.

**Post-cessation Shareholding Requirements** – The SC propose to introduce wording to the policy that would expect remuneration policies to require executive directors to hold either a specified shareholding amount set out in their contract or 200%, whichever is the lesser.

**Remuneration** – A majority of the SC voted to keep the current limit on variable pay at 300% of basic salary, rather than reduce it to 100%.

## **Discussion: Sustainable Development Goals (SDGs)**

In advance of the meeting Castlefield sent MA details of the holdings in the Castlefield B.E.S.T Income Fund in order for Ethical Screening to conduct their SDG analysis. MA explained some of the methodology and outcomes for the Committee.

The Committee's discussion covered:

- The SDGs were written for countries rather than companies, however, there is a general consensus that for the goals to be achieved, companies need to contribute.
- Of the top 250 global companies, 40% report against SDGs<sup>3</sup> and there has been an increase in investment funds launched specifically referencing the SDGs.
- Goal-washing or rainbow-washing examples were provided for both a company and a fund where there were striking levels of reported alignment.
- Some goals are far more addressable for companies than others, such as healthcare, infrastructure, and clean energy.
- The analysis of the B.E.S.T Income Fund suggested a realistic representation of the Fund rather than some of the self-reported versions we had looked at.
- Overreporting can be problematic as it becomes less meaningful if companies are claiming to meet all of the SDGs when in reality these claims are tenuous at best.

## **Discussion: Plastics**

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<sup>3</sup> <https://assets.kpmg/content/dam/kpmg/uk/pdf/2018/05/how-to-report-on-the-sdg-sustainability.pdf>

DB provided an introduction to the topic based on the paper which was circulated to the Committee. Single use plastics are quite a topical issue, with a lot of media coverage and public awareness. The paper has picked out a few areas that we feel are particularly relevant to holdings: plastics in food and drink packaging; pharmaceuticals; and ecommerce.

The Committee's discussion covered:

- Retailers plastic targets tend to focus only on own branded products, over which they have much greater control. However, there have been some positive changes recently, e.g. Tesco removing plastic-wrapped multipacks.
- Some supermarkets have been trialling refill stations and are planning to roll them out further.
- There is a difficult balance between reducing the use of plastics and minimising food waste. Some trials with loose fruit and vegetables have seen greater handling of products by customers resulting in more food waste.
- Responsibility for recycling is a key issue – some local councils only accept certain types of recycling and there is often a lot of confusion amongst consumers about what can and can't be recycled.
- The paper provided a useful list of areas where immediate progress could be made in supermarkets. This list could provide the basis for future engagements.

Discussion: Aquaculture

AO presented her paper on salmon farming and the numerous environmental, welfare and governance considerations involved. The investment team had previously debated the merits of the industry in relation to a potential investment.

The Committee's discussion covered:

- Salmon has a lower carbon footprint compared to other meat-based protein sources; however, it is an industry with many sustainability challenges.
- While salmon may have a lower carbon footprint than other animal-based protein sources, the question was raised as to whether we should be focusing on investment opportunities in plant-based protein sources.
- The potential for salmon to be considered as a transition food as we see a reduction of meat in diets.
- There are higher regulatory standards for salmon farming in Europe than other markets such as Chile and Canada. European operators' high ESG ratings from third parties are likely attributable to their compliance with these standards.
- Castlefield does not directly hold any aquaculture stocks in any of its funds, given the investment team's concerns on a range of ESG issues. However, the Committee agreed that it is an area that Castlefield could continue to monitor.