CASTLEFIELD B.E.S.T SUSTAINABLE PORTFOLIO FUND

Assessment of Value

30th April 2020

(Relating to the 12 month period ended 31st December 2019)

THE THOUGHTFUL INVESTOR

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GLOSSARY OF TERMS

SPECIFIC TERM USED	INTENDED MEANING
ACD	Authorised Corporate Director
AFM	Authorised Fund Manager, meaning the ACD of a scheme
AMC	Annual Management Charge
ARC	Asset Risk Consultants Limited
CAP	Castlefield Advisory Partners Limited
Castlefield	Collectively Castlefield Partners Limited and its associated companies including CAP, CFP & CIP
CFP	Castlefield Fund Partners Limited
CIP	Castlefield Investment Partners LLP
COLL	The Collective Investment Schemes sourcebook which applies, inter alia, to investment companies with variable capital and ACDs
FCA	Financial Conduct Authority
Fund	The Castlefield B.E.S.T Sustainable Portfolio Fund, the main characteristics of which are summarised in the appendix to this document
IA	The Investment Association, trade body providing Fund sector categorisations
IA2	A peer group of around 70 funds which is a sub-set of the IA's 40% to 85% equities peer group and has been designed to include only other fund of funds, which, on an active basis, can invest in other funds in an "unfettered" manner i.e. not just in their own in-house/captive funds, but with no requirement that the funds in this peer group invest in a Values-Based manner
Investment Adviser	CIP
Maitland	Maitland Institutional Services Limited
NED	Non-Executive Director
OEIC	An open-ended investment company
OCF	Ongoing Charges Figure representing an aggregated cost to investors calculated as a percentage of the assets & liabilities within the Fund A Fund price is inclusive of these charges including (not exclusively) the fees of; Investment Adviser, ACD, Registrar, Auditor, Depositary & Custodian
Société Générale	Société Générale Securities Services
Unitholders / Units	Investors in the shares of the investment company with variable capital (ICVC), also known as an OEIC
Values-Based	Designed to incorporate fully the values or ethical concerns of investors as part of the investment process. Sometimes also referred to as 'ESG' investing or responsible and sustainable investing, although definitions vary across investing institutions

ATTESTATION AND EXECUTIVE SUMMARY

ATTESTATION

Based upon the relevant criteria specified by the FCA in COLL, the Board is satisfied that the Fund delivers value to investors.

EXECUTIVE SUMMARY

1. There is a comparatively small, but growing appetite in the UK market for investments which are made in a Values-Based manner. The spectrum of investment managers now claiming to take a Values-Based approach is broad, but there is a credible argument that genuine, actively managed, Values-Based investing is rare.

2. The Fund provides a highly distinctive fund-of-funds offering, managed with reference to a Values-Based mandate, delivered by a Values-Based investment manager.

3. The Fund therefore caters directly to clients who have a firm opinion on how they wish their money to be managed and care about the values of the firm that manages it.

4. At the same time, the Fund is designed for investors with a 'medium' risk tolerance and an objective of growth or a balance of growth and some ongoing income and therefore comparable to relevant ARC benchmarks and IA peer groups.

5. The Fund is performing competitively, including in terms of both investment performance and cost, by reference to the benchmarks and peer groups noted in 4, but is doing so while also offering its investors the Values-Based fund-of-fund investing from a Values-Based manager they value and are seeking, in a way in which there are few, if any, credible comparable competitors.

6. The Board recognises that the Coronavirus pandemic has made current operating conditions exceptional and challenging. This assessment has been almost exclusively conducted in the run up to that outbreak. Given, the long-term nature of the assessment (for example, performance is evaluated over a five-year time horizon to 31 December 2019) the Board believes its analysis and conclusions remain valid, at the time of writing.

7. In addition, while it is too early to make definitive judgements, the Board believes the pandemic will add further momentum to Values-Based investing, given the enhanced emphasis it will place in future on sustainable business practices, which are more resilient and built for the longer term.

OBJECTIVE, METHODOLOGY AND APPROACH

The FCA has introduced new rules that require us, as the AFM to the Fund, to carry out an annual assessment of whether the Fund provides value for our investors. We are publishing this assessment in accordance with these new rules.

As a Values-Based firm, we believe in continuously assessing

- whether we are doing the right thing, where we are the investment manager, in allocating our investors' money to the businesses in which we invest;
- the effectiveness and efficiency in the way in which we discharge our duties as AFM; and
- more generally, the way Castlefield is run.

We welcome this further opportunity to provide our assessment of how this Fund is providing value for our investors and we are carrying out a similar exercise across all the funds, in respect of which we are the AFM.

We have taken as the framework for our assessment the seven headings provided by the FCA in COLL, namely:

1. **Quality of Service**
   (by which the FCA means the range and quality of services provided to unitholders)

2. **Performance**
   (by which the FCA means the performance of the scheme, after deduction of all payments out of the scheme property as set out in the prospectus and over an appropriate timescale having regard to the scheme's investment objectives, policy and strategy)

3. **Costs**
   (by which FCA means in relation to each charge, the cost of providing the service to which the charge relates and when money is paid directly to associates or external parties, the cost is the amount paid to that person)

4. **Economies of Scale**
   (by which the FCA means whether the AFM is able to achieve savings and benefits from economies of scale, relating to the direct and indirect costs of managing the scheme property and taking into account the value of the scheme property and whether it has grown or contracted in size as a result of the sale and redemption of units)

5. **Comparable Market Rates**
   (by which the FCA means in relation to each service, the market rate for any comparable service provide by the AFM or to the AFM or on its behalf, including by any person to which any aspect of the scheme's management has been delegated)

6. **Comparable Services**
   (by which the FCA means, in relation to each separate charge, the AFM's charges and those of its associates for comparable services provided to clients, including for institutional mandates of a comparable size and having similar investment objectives and policies)

7. **Classes of Units**
   (by which the FCA means, whether it is appropriate for unitholders to hold units in classes subject to higher charges than those applying to other classes of the same scheme with substantially similar rights)

Whilst there has been limited express additional guidance from the FCA on how the assessment should be conducted, we believe the approach we have followed in coming to our assessment has been a rigorous one, reflecting, over an extended period, detailed input and analysis from a wide range of executives across CFP and Castlefield and in-depth consideration by the Board of CFP, which includes two new non-executive directors, appointed pursuant to the new FCA rules.

This is the first year in which these assessments have been made. We will continue to monitor FCA reactions to the assessments generated by AFMs pursuant to these rules and refine and adapt our approach, where necessary, to reflect emerging FCA guidance, alongside industry best practice.

OBJECTIVE, METHODOLOGY AND APPROACH

1. QUALITY OF SERVICE

We think Quality of Service is fundamental in assessing the value being delivered to investors.

In assessing Quality of Service we have taken into account the investment approach of CIP and the way in which Castlefield, as a business, is run, alongside our record on client service and operational execution. Given the Values-Based attributes we know our investors are looking for from the Fund, we have placed particular weight on CIP's investment approach and the way Castlefield is run.

On investment approach, we believe six key points underscore the quality and differentiation of what investors are receiving from the Fund:

- A diversified fund-of-funds approach which applies the Values-Based, B.E.S.T (Business & financial, Environmental & ecological, Social and Transparency & governance) approach across all its allocations to underlying funds;
- An integrated approach to financial and non-financial analysis (i.e., B.E.S.T is not an overlay);
- Proprietary research (rather than reliance on third party data which has significant shortcomings) from a well-resourced, experienced team;
- Portfolios which do not include elements which could be subject to 'greenwash' claims (e.g. allocations to oil and gas companies) which we sometimes see in funds claiming to be sustainable;
- A voting and engagement policy which compares extremely favourably to what we see more generally across the sector; and
- An External Advisory Committee, with client/investor membership alongside third party ESG specialists.

On the way in which Castlefield is run, we have noted key differentiators which speak further to the Fund's Values-Based proposition, including:

- Castlefield is primarily an employee-owned business – we are all co-owners rather than employees and this feeds through positively into a culture of shared accountability and a longer-term outlook;
- CIP does not adopt a 'pay for performance' culture. We see the bonus culture prevalent in the asset management industry as counter-intuitive to long-term or sustainable investing;
- we champion career development and, in our view, Castlefield is one of the UK's leading asset management firms on gender diversity;
- we look to manage our supply chain sustainably. For example, our cleaners are paid a living wage; we source our coffee from responsible small-scale suppliers and the due diligence we carried out on our new IT service provider included on conduct standards; and
- our reputation is reflected in the awards we win - most recently, we have been shortlisted in two categories for the Better Society Awards 2020 – the Green Finance Award and the Good Money Award and we have won the 'Best Financial Adviser to Work For' category in the 2020; awards organised by Professional Adviser magazine.

Our client service is working effectively. This includes efficient interaction with those responsible for the management and administration of the Fund and good comparative levels of disclosure and transparency. This disclosure includes, in addition to regular reporting, publication of a quarterly Stewardship Report, highlighting our active engagement with portfolio companies, and the opportunity for investors to attend the annual Castlefield Symposium, which allows them to meet and discuss directly how the Fund is managed.

Our operations are also working effectively, based on consistent monitoring of CFP's performance and where these functions are delegated, the performance of third-party delegates in line with agreed service level agreements. As a consequence of this, we received no complaints relating to the management or administration of the Fund during 2019.

2. PERFORMANCE

Our analysis of the Fund's performance to the end of December 2019 on an absolute basis and relative to relevant benchmarks and peer groups ('Peer Groups'), indicates that the Fund is providing value to investors by:

- meeting its long-term objective of achieving growth in capital and some income over the long term (meaning a minimum of five years);
- outperforming average returns across the Peer Groups over five years (and other time periods), at levels of risk slightly below or comparable with Peer Groups; and
- achieving this competitive performance, whilst also offering the Fund's investors the Values-Based fund-of-funds investing from a Values-Based manager they value and are seeking, which few if any other managers within the Peer Groups are offering.

Reflecting, in broad terms, the medium risk/growth nature of the investment strategy of the Fund and what that means in terms of asset allocation and the way it invests, the Peer Groups are

(i.) the ARC Steady Growth universe;

(ii.) the IA 40% to 85% Equities peer group; and

(iii.) IA2 (a subset of (ii)) designed to include only other fund of funds, which can invest, on an active basis, in other funds in an 'unfettered' manner i.e. not just in their own in-house/ captive funds.

It has not been possible to create a Values-Based peer group for funds following the unfettered fund-of-funds approach, whilst adopting a Values-Based investment process and/or where the manager is run using a Values-Based ethos. There are no funds managed on this basis other than the Fund.

Future value assessments may be able to create such a peer group, as the universe of comparable Values-Based funds expands. As strong advocates for Values-Based investing, we would clearly welcome that expansion, but we are not there yet.

The Fund was launched at the beginning of February 2018, but we have been able to create a longer composite track record by using the Novia Growth/Medium model, which was applied by CIP on predecessor portfolios managed with an identical 'medium/growth' mandate.

3. COSTS IN GENERAL

We have tested our OCF on an aggregate Fund basis and by reference solely to the general share class now open to investors, by comparing these to the average for IA2, being the closest peer group we have for which this comparable cost data is public.

The OCF includes, but is not limited to, fees payable to the Investment Adviser, ACD, custodian, depositary and transfer agent. To the extent possible, account has been taken of total similar costs imposed by the underlying funds in which the Fund invests. We have also taken into account the benefits of cost reductions relating to the Fund which are already in train and which will begin to flow through to investors by mid-2020.

Our conclusion is that these costs do represent value to investors as currently or by mid-2020 they are or will be below or comparable to the current sector average for IA2 and that this is being achieved:

(i.) whilst also offering Fund investors the Values-Based fund-of-fund investing from a Values-Based manager they value and are seeking, which few if any other managers within the comparable peer group are offering; and

(ii.) at an assets-under-management (AUM) scale significantly below that of the mainstream sector average, which reflects the small, but growing appetite in the UK market for investments which are made in a Values-Based manner and the current embedded scale advantages of funds not investing in a Values-Based manner.

We note that the specifics of individual charges were considered in more depth as part of assessment under heading 5 (Comparable Market Rates) on page 8.

OBJECTIVE, METHODOLOGY AND APPROACH

4. ECONOMIES OF SCALE

Although, as noted under costs in general, the size of the Fund remains relatively small compared to mainstream peer group averages, we have nonetheless been able to build into our pricing a range of savings as AUM increases which, taken in the round, allow us to achieve economies of scale.

These include:

- A tiered fee structure for the ACD fee, in relation to the Fund itself and each of the Castlefield sub-funds in which the Fund invests;
- A tiered fee structure in relation to the Investment Adviser's fee charged by each of the Castlefield sub-funds in which the Fund invests; and
- Similar 'sliding scale' fees negotiated with the third party service providers to various Castlefield sub-funds, including the Fund, which in general are calculated by reference to the aggregate AUM of the Castlefield sub-funds in respect of which those services are provided.

These above arrangements will automatically pass on savings in fees to the Fund's investors as assets managed grow.

5. COMPARABLE MARKET RATES

The market has been tested for comparable costs of services as part of an ongoing assessment of the value the services are providing to investors, including those in this Fund.

Our conclusion is that the present range of costs already represent value for investors and that we have, as part of our ongoing assessments as noted earlier, identified further savings, the benefits of which will begin to flow through to investors by mid-2020.

We note, specifically in relation to Castlefield's own fees in relation to the Fund, namely the Investment Adviser's fee paid to CIP and ACD fee payable to CFP, that the effective rates are 0.29% and 0.12% respectively or 0.41% in aggregate (taking into account applicable waivers) which is below the typical fees for the IA2 peer group, even assuming, very conservatively, that this typical fee reflects a combined Investment Adviser and ACD fee.

6. COMPARABLE SERVICES

We have deliberately structured the business at Castlefield to avoid the scenario where, for example, investors who access a particular strategy via a collective fund are charged considerably more than would be the case if an institutional investor accessed the same strategy directly via the same investment manager.

In practice, this means, for example:

- all investors in the Fund pay the same amount to CIP for managing their money in the Fund, whether they are clients of CIP, which then allocates money to the Fund, or access the Fund directly via CFP;
- Castlefield carefully manages the mandates it will accept, precisely to avoid the kind of pricing pressures at issue here, with most of CIP's clients (by number) having portfolios worth less than £5m, a figure at which a negotiation around fees would not tend to arise; and
- In circumstances, where there are larger investors in the Fund who want a direct relationship with CIP, for example because they want additional day-to-day contact and/or reporting, they pay specific additional fees for those services, reflecting the additional time costs of the CIP to provide them (effectively the opposite of a discount).

7. CLASSES OF UNITS

The Fund is structured in a straightforward and simple manner.

As the Fund was launched after the conclusion of the FCA's Retail Distribution Review (RDR), it has never had share classes subject to the kind of commission-based arrangement which the RDR banned. It follows that no investors were identified to have suffered any additional, unnecessary fees and there is no need to arrange for a switch in share class for any investors.

Where the Fund allocates to underlying Castlefield funds, it has always been invested in the lowest-cost share class of the relevant sub-fund. In addition, where third party funds are used the lowest cost qualifying share class is accessed. The qualifying criteria for accessing even cheaper third-party share classes over time are also actively monitored.

As noted earlier, the Fund has two classes of shares. These are:

- A Founder Class of shares, which was restricted to investors within the first two week offer period, following the launch of the Fund on 1 February 2018, but allowed for additional monies to be invested in this share class by these investors, up to a total cap of £20m, which was reached during 2019; and

- A General Class of shares – for all other investors.

The Founder Class of Shares is subject to a nil Investment Adviser's fee, but pays all other fees. This reflects the risk taken by investors at the time of the Fund launch to back a fund with no other capital or operating history at that time. It would be inequitable and uneconomic to extend the fee relief extended to Founder Share class holders at launch to compensate them for these risks to the General Share class holders, who did not take these risks. It has already been noted that, in any event, the effective rate for the Investment Adviser's fee paid by holders of the General Class of shares is competitive.

APPENDIX

SUMMARY OF THE MAIN CHARACTERISTICS OF THE FUND

Name of the OEIC umbrella:	Castlefield Portfolio Funds
Name of the sub-fund:	Castlefield B.E.S.T Sustainable Portfolio Fund
Authorised Corporate Director:	Castlefield Fund Partners Limited
Investment Adviser:	Castlefield Investment Partners LLP
Trustee & depository:	Société Générale Securities Services
Registrar:	Maitland Institutional Services Limited[1]
Auditor:	Beever & Struthers
Investment objective & policy:	The investment objective of the Fund is to achieve growth in capital and income over the long term. Long term means over a minimum investment horizon of five years. The Fund will invest mainly in collective investment schemes with exposure to both UK and non-UK equities and fixed income securities. The Fund may also invest in transferable securities (both quoted and unquoted), money market instruments, deposits, warrants, cash and near cash. In seeking to achieve the stated investment objective, the Investment Adviser uses a responsible investment research process to identify the universe of securities from which the Fund may invest. The four criteria that need to be evidenced by each investment are reflected in the name of the Fund where "B.E.S.T" indicates Business & financial, Environmental & ecological, Social and Transparency & governance. However, equal weighting may not be given to each element of these criteria when screening potential investments. The Investment Adviser then supplements this research process by selecting only those investments which, by their nature, are considered to be sustainable in order to meet the investment objective. Sustainable activities are considered to be those necessary to ensure the long-term continuity of an activity, system, society or enterprise. The Fund may invest in shares or units of collective investment schemes which are managed or operated by the ACD or an associate of the ACD.

1. Currently under six months' notice of termination, issued 13th December 2019 and to be replaced by a chosen alternative provider.

THE THOUGHTFUL INVESTOR

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