

CASTLEFIELD COMPANY SURVEY: COVID-19

STAY HOME
PROTECT THE NHS
SAVE LIVES

Stand for taxis
TAXIS
7pm - 7am

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ELD

THE THOUGHTFUL INVESTOR

THEMATIC REVIEW

INTRODUCTION

It is no exaggeration to say that COVID-19 has had a major impact on our daily lives and is likely to be felt for a considerable amount of time. The Coronavirus, along with the ensuing lockdown presents a unique set of challenges for everyone, not least businesses. In this unparalleled set of circumstances, we wanted to ask our investee companies how they were dealing with the disruption to business and usual from both a financial standpoint as well as maintaining our focus on environmental, social and governance (ESG) and sustainability factors.

We believe that well-run, socially responsible companies will be the long-term winners in any market, and therefore we, using our B.E.S.T methodology, invest clients' funds in these businesses. The sad fact is that this crisis presents us with a unique, if unwanted, opportunity to examine the corporate behaviour or citizenship of the companies we own, beyond our usual engagement. Under extreme duress, are they "walking the walk" or just "talking the talk" when it comes to their environmental, social and governance (ESG) commitments? Put another way, are the companies we invest in still meeting the requirements of what some investors describe as their "social licence to operate".





THE SURVEY

To gather evidence to develop our understanding of what we think is happening in the economy and how it is impacting our investee companies, we decided to conduct a survey.

We contacted over 130 companies whose shares we hold across our Castlefield B.E.S.T Sustainable Funds; the European Fund, UK Opportunities Fund, UK Income Fund and UK Smaller Companies Fund. We asked fifteen questions in the survey, a mixture of closed questions to help us gather hard data, plus we asked open questions and incorporated comment boxes for respondents to add further detail and qualitative information if they wanted to. Questions covered some of the social challenges of managing a business in a crisis, such as furloughing staff, dealing with suppliers and with recruitment, as well as aspects of financial resilience.

We had the survey open for responses for about two months and we were pleased with the response rate we achieved. As at the 19th June, when it finally closed, we had 52 replies – an above-average response rate of 40% given the survey provider we used suggested an average response rate for an external survey could be around 10-15%.¹ Considering the increased demands on company time during the last few months, we are pleased with this level of response from our investee companies and see it as a real positive that many companies are still able to participate in engagements with investors outside of more structured updates and group meetings.

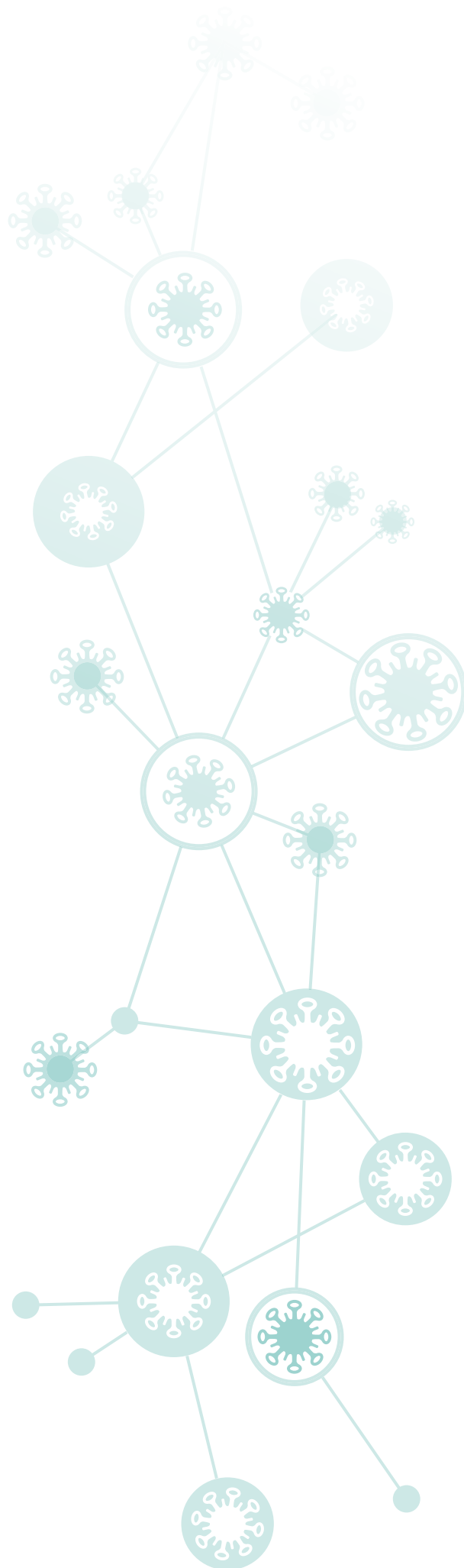
In this report we will be delving into the responses we received from these companies and highlighting any discernable trends as well as the implications this may have for how we manage our portfolios and consider these topics in the future.

¹ <https://blog.smartsurvey.co.uk/top-tips-to-improve-your-online-survey-response-rates>

INITIAL THOUGHTS

It was interesting to note that, of the responses we received, seventeen were from the directors of companies while the rest tended to be from investor relations (IR) teams. Of the responses from company directors, most were from smaller companies where the directors do much more of their own investor relations work, whereas larger companies tend to have their own IR teams. We were also delighted to receive more than 280 individual narrative comments covering a very broad range of themes, which we will consider in more detail later.

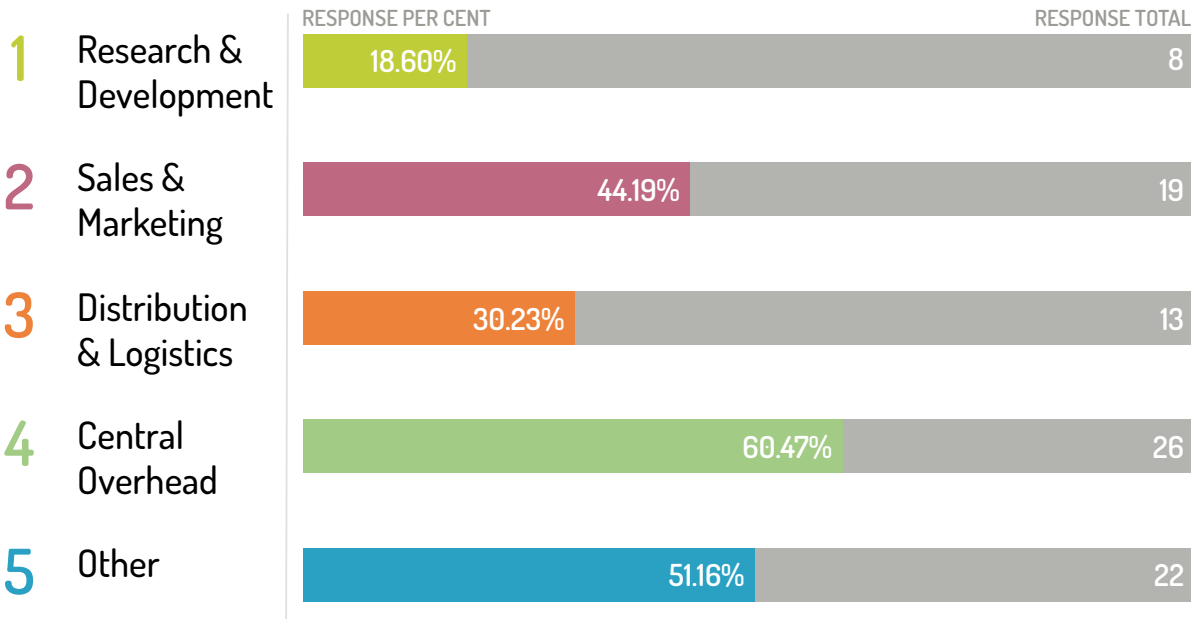
One thing we came to realise was that, in such a fast-moving situation with high levels of uncertainty, the survey is very much a snapshot in time; what a company said in mid-to-late April, while the full implications of lockdown was still unfolding, might differ from what they would say today when a “new normal” is emerging. Nonetheless, there were some useful takeaways from the survey.



KEY TAKEAWAYS

Financially, a focus on cash management and protecting balance sheet strength were the top priorities; back in April and May, it was all about immediate survival. 83% of respondents had not accessed any government support schemes such as CCFF (the COVID Corporate Financing Facility) although a significant number (40%) decided to draw down existing banking facilities. Cutting overheads – smaller offices, fewer staff, more use of technology – were also front-of-mind for companies in the early weeks of lockdown, along with much more caution over recruitment and R&D spend. Companies were and are looking for cost savings across their whole range of operations.

EXCLUDING STAFF/WAGE CUTS, WHERE ARE YOUR COST-CUTTING EFFORTS FOCUSED? PLEASE SELECT AS MANY BUSINESS AREAS AS APPLY:



We never forget the importance of dividends to our clients, so we asked the companies about them. Around half of respondents said they still planned to pay the same level of dividends they announced before the pandemic, around a quarter were still reviewing the situation and 15% were no longer paying a dividend. It's worth noting that, for example, the green energy companies we invest in have been more resilient to the impacts of the pandemic and they're still planning to pay their dividends in full. The situation is still unfolding, and we monitor it closely.

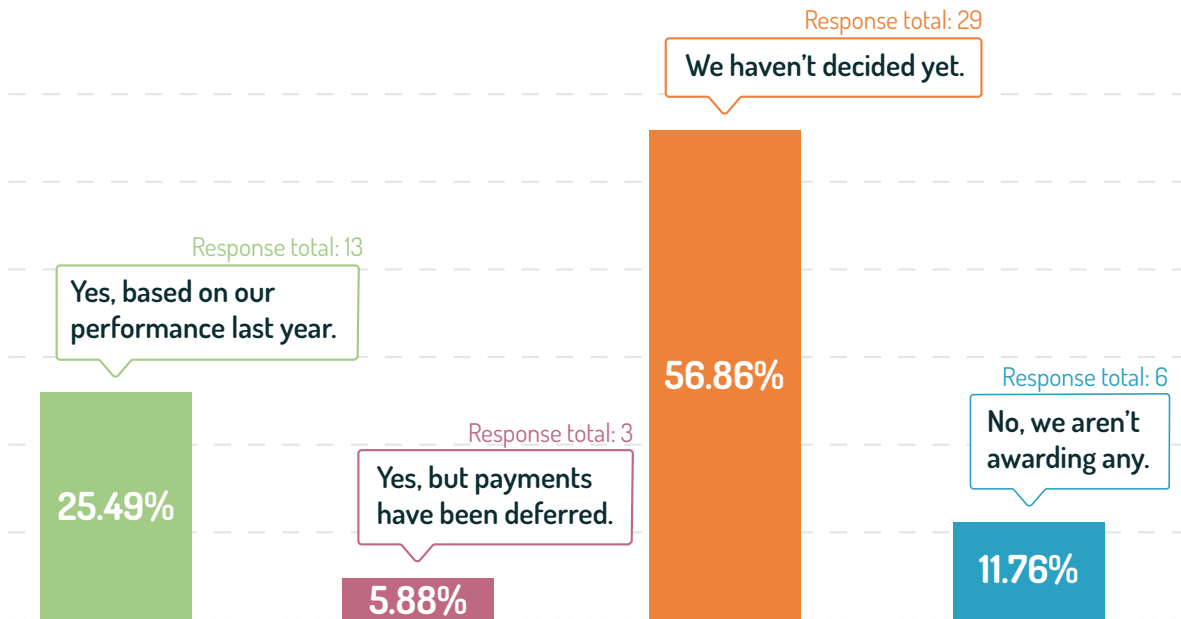
DO YOU PLAN TO PAY A DIVIDEND THIS YEAR?



KEY TAKEAWAYS (continued)

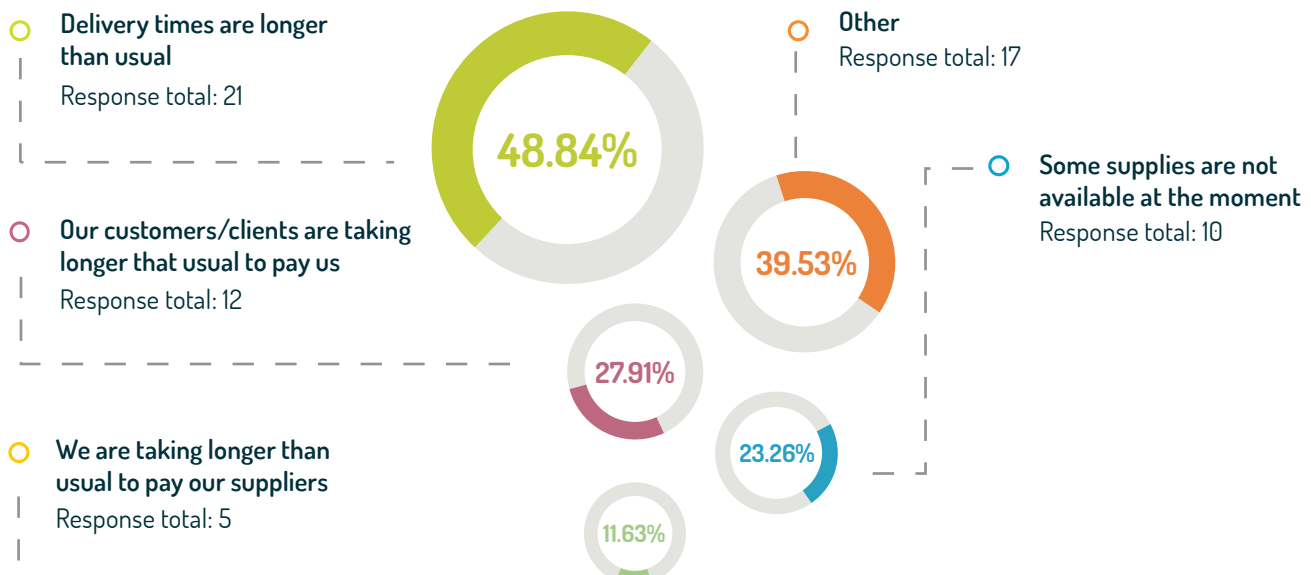
Several survey questions were about “doing the right thing” towards employees, with supply chains and as management teams to avoid accusations of “us and them”. We asked, “is there a plan at board level to implement further cost-cutting measures, such as wage reductions for employees?” The responses were evenly split (30% said yes, 34% “not so far” and 36% “no”) as companies appear to be still making up their minds on this, monitoring the situation as it unfolds. We also wanted to probe a little further on what management teams and main board directors were doing regarding their own pay. In response to the crisis, 28% of companies had seen directors take a pay cut of some kind. When it comes to awarding variable pay (bonuses, etc.) to qualifying employees, companies were more circumspect; almost 60% of companies hadn’t decided yet while 13% said they weren’t awarding any.

HAS THE REMCO OR BOARD DECIDED TO AWARD VARIABLE PAY TO QUALIFYING EMPLOYEES THIS YEAR?



With regard to supply chains, we were hoping that our companies were trading with as little disruption as possible. Over half of respondents noted that delivery times were longer than usual while around a quarter said that customers were taking longer than usual to pay them. We hope and expect that supply chains have returned to a more normal state by now, given the gradual easing of restrictions.

WHAT IS HAPPENING IN YOUR SUPPLY CHAIN?



Looking to the future, the closed questions and hard data obtained from “our” companies suggest that we can expect;

- More flexible working arrangements for everyone
- Smaller offices (especially head offices)
- More working from home
- Less domestic and international business travel
- More video conferencing, fewer face-to-face meetings
- Greater use of technology generally

The vast majority of companies we invest in say they are still fully behind their ESG commitments and we were really pleased to see that corporate commitments to ESG and Sustainability won't change (75% of respondents) or will increase (12%).

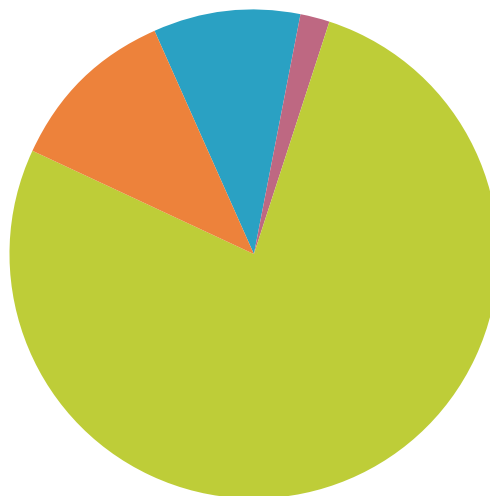
AT YOUR COMPANY, WILL THE BUDGET ALLOCATED TO SUSTAINABILITY ISSUES CHANGE AS A RESULT OF THE COVID-19 CRISIS?

79.62% **No change**
Response total: 40

11.54% **Increase**
Response total: 6

9.62% **No such budget**
Response total: 5

1.92% **Reduce**
Response total: 1



CASE STUDIES

Here we have provided a selection of anonymised examples of the many comments we received by companies through the survey. We believe that these statements show positive examples of the actions these businesses have undertaken in the interest of good working practices and supporting their local communities.

"Safety of our customers, partners, and everyone working [here] is the highest priority in times like these. As a company, we have been proactive and activated our Pandemic Plan at all manufacturing and larger regional sites to keep all of us...safe and healthy in the face of the COVID-19 pandemic and keep our operations running.

The most important measures we have taken to ensure business and support continuity were:

- i. Protecting our employees, from asking most employees to work from home to implementing various measures that ensure the safety of colleagues who are on the manufacturing floors.
- ii. We moved to shift operations, segregated and separated our production teams to work in smaller, isolated groups to ensure that our production facilities are up and running and that customers and OEM partners do not experience delays.
- iii. We have secured our supply chain with worldwide storage, safety stock management and close communication with suppliers to secure the needed materials.
- iv. Finally, we continuously monitor both our internal situation as well as the global situation to ensure that we can respond quickly and effectively to any changes, as well as keep our customers informed if these changes impact them directly."

COMPANY A

In regard to our colleagues, we acted quickly to mobilise them and enable them to work from home. We have supplied around 4,500 individual pieces of IT kit (such as keyboards and cables) to make this possible.

In this challenging time, we recognised that our colleagues may need to take time off to care for loved ones and have provided paid emergency leave for those caring for people during the Covid-19 crisis.

As a small measure of our gratitude toward key workers we are donating £1 million to be split between Age UK and charities supporting the communities local to our offices across the UK and Europe. These charities, especially some of the smaller ones, are dealing with unprecedented demand for their services when finances may be stretched, and we are delighted to support them. Recognising the critical role the Air Ambulances play in the NHS, we have also extended our support for our four existing Air Ambulances"

COMPANY B

We have taken a number of measures to ensure the safety of employee and customers. A global task force was activated in January to monitor the situation and issue guidance based on the current and fast-changing situation. We restricted travel and enabled work from home very quickly. We are supporting employees by offering online trainings to help build skills like eldercare, we have offered to keep employees connected, and have ensured employees flexibility for those facing the challenge of having the children at home during the crisis."

COMPANY C

"The Management Committee have personally donated £40k to NHS Charities and Trussell Trust (food banks) alongside the Group donating a further £60k to total £100k. We have also implemented a give as you earn scheme for all employees, where the Group will match donations up to a limit."

COMPANY D

"We have sought to employ homeworking labour within our local community during lockdown to help maintain an income in struggling householders known to us via employee connections.

We have tried to find ways to employ local sole traders/vendors whose businesses have been negatively affected by the lockdown. e.g. our local pub is providing lunches for all production staff every day. Our local taxi firm is delivering homeworking materials. In both instances we are their only source of income.

We are making a donation to NHS workers of a newly designed and manufactured disinfectant pack, which allows them to keep their own environment (home or hospital) decontaminated, and themselves protected."

COMPANY E

MEET THE TEAM



Alistair Currie

BCom (Hons), CA

Partner, Investment Management



David Beggs

BSc (Hons), IMC, ACSI

Executive, Investment Management



Ita McMahon

IMC, MA, BA (Hons)

Manager, Investment Management



Rory Hammerson

MA (Hons)

Partner, Investment Management



Amelia Overd

MA (Hons), IMC, ACSI

Executive, Investment Management



David Elton

BSc (Hons), IMC, Chartered MCSI, CFA

Partner, Investment Management



Mark Elliott

Mchem (Hons), Chartered MCSI, CFA

Partner, Head of Investment Management



Simon Holman

MA (Hons), MSc, CFA, Chartered MCSI, ASIP

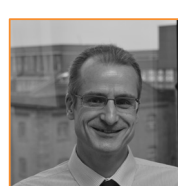
Partner, Head of Client Investments



David Gorman

MA (Hons), MBA, Chartered MCSI

Partner, Investment Management



Mike Heron

Chartered MCSI

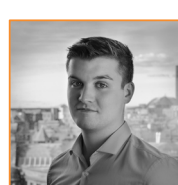
Executive, Investment Management



Alison Newall

Chartered MCSI

Associate, Investment Management & Director, Piccadilly Trustee Limited



Daniel Lonsdale

IMC, ACSI

Senior Executive, Investment Management



John Eckersley

BA (Hons), MBA, Chartered FCSI, Chartered Wealth Manager

Managing Partner



Richard Slattery-Vickers

BA (Hons), ACSI

Partner, Investment Management

FINAL THOUGHTS

What else did we get out of our survey?

We are dedicated in our mission of being a thoughtful investor and we hope that our investee companies recognise that we are their committed, engaged, long-term supporters.

Sending out the survey has sparked plenty of follow on conversations, with several companies offering meetings and calls to provide further information and take up our questions in more detail; we are already having those conversations. As the response to the pandemic evolves, being in contact with so many companies has proved a positive method to gain valuable insights. We've had plenty of positive feedback from the companies with whom we got in touch, many of them interested in hearing about the outcomes.

Given that the world is still dealing with the fallout from the global financial crisis of a decade ago, it's clear that the global economy will not recover from this crisis for some time. Even as we progressively return to work over the summer, we aren't "back to normal" because companies will be dealing with the consequences of Covid-19 for years.

In terms of how this impacts our portfolios, this has been an opportunity to test the validity of our investment case and our assumptions about how our investments fare in difficult circumstances. In most cases, we were glad to see that, despite the difficulties they faced, our focus on high quality businesses means we have been pleasantly surprised by the results. At this stage, it is encouraging to note that the businesses we invest in, well-run, sustainable businesses, are dealing with the present situation well, indeed some are weathering the storm in exemplary fashion.

Looking to the future, we plan to follow up with our survey respondents later in the year to see how they confront the evolution of the crisis and, we hope by then, how they are recovering from it.





THE THOUGHTFUL INVESTOR

8th Floor,
111 Piccadilly,
Manchester M1 2HY
0161 233 4551
castlefield.com

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