Managing sustainability risks

In response to the growing interest in sustainability or environmental, social and governance (ESG) issues from asset owners and regulators, we have produced this short document which sets out how Castlefield takes these factors into account in investment decision-making.

1. Sustainability risk policy

It is our policy to integrate sustainability risks into all investment decision-making processes. We do this through our proprietary model, the B.E.S.T process, which we apply to all directly invested funds under management. Our premise is that investment returns will be improved by looking beyond traditional, strictly financial criteria. We believe that companies whose management teams are attuned to business risks, in areas such as the environment or the treatment of their workforce, are more likely to avoid major problems which could impair investment returns.

2. The B.E.S.T process

The B.E.S.T process considers four factors when assessing the suitability of a company or product for investment: (B) business and financial performance, (E) environmental and ecological considerations, (S) social influence - both positive and negative - of a firm's operations, products and services, and (T) the transparency of the company's reporting and its approach to corporate governance:

B	Business & Financial: What kind of returns or performance target does the investment aim to achieve?
E	Environmental & Ecological: What is our assessment of any claims made on an environmental theme?
S	Social: Does the investment aim/claim to have a positive social influence and if so, how?
T	Transparency & Governance: Are the aims observable and/or measurable? Can we understand how it's supposed to generate the expected returns?

3. The B.E.S.T Sustainable Screening Policy

This process is supplemented by our B.E.S.T Sustainable Screening Policy. The policy sets out the type of investments that are not suitable for the B.E.S.T Sustainable fund range. We will not invest in any company or issuer that derives more than 10% of revenue or operating profit (whichever percentage is the higher) from the industries, products and activities listed below:

a) The manufacture and distribution of weapons and weapons systems
b) Nuclear military
c) Nuclear power generation
d) Infant formula where the retail or manufacture contravenes international guidelines
e) The extraction, mining, processing and production of carbon emitting fossil fuels
f) Breeding, rearing or trapping of animals for fur and the retailing of fur products
g) Animal testing for cosmetic purposes
h) The manufacture and retailing of alcohol
i) Gambling, including casinos and betting, gaming machine operators and lotteries
j) Production, distribution and retailing of pornography
k) Manufacture and retailing of tobacco and tobacco-related products
l) Consumer credit companies offering egregiously high interest rate loans and home-collected credit
m) Mining

Our Castlefield Screening Policy applies to our directly invested B.E.S.T Sustainable Fund range. With regard to the Castlefield B.E.S.T Sustainable Portfolio fund range, any asset held directly will be subject to the policy. In the case of third-party funds, we assess the team and manager's willingness and ability to address sustainability concerns. While their screening policies and investment process may differ from our own, we look for funds where we believe these principles are an integral part of the process and where the fund house has a track record of considering sustainable and responsible investment.

4. Sustainability risks and governance

We monitor sustainability risks in a number of ways. Firstly, we have an internal stewardship committee that meets quarterly. The Committee is made up of members of Castlefield's investment management team and its remit is to:

- To set the stewardship strategy for the Investment Team
- To discuss the implementation of the stewardship strategy
- To make the Committee aware of emerging stewardship issues which includes sustainability risks
- To define, re-evaluate and approve policies that the Committee has responsibility for, most notably our voting guidelines which are updated annually by the Committee.
- To evaluate and approve CIP's membership of any organisations/initiatives that support the company's stewardship efforts.

Secondly, we have an external advisory committee, which has been in place since 2018. The committee is comprised of clients and ESG specialists and meets twice a year. The role of the Committee is to:

- Review Castlefield's current stewardship activity for all CIP funds. This includes, but is not limited to, voting, engagement and responding to public consultations on matters pertaining to thoughtful investment.
- Review current and specific prospective holdings in the B.E.S.T Sustainable fund range where CIP has identified concerns and provide guidance on a current or prospective holding that the Committee considers unsuitable on environmental, social or governance grounds.
- Review Castlefield's stewardship report and make recommendations on future content.
- Consider investment themes presented by Castlefield co-owners to the Committee.

- Advise on changes to the CIP voting guidelines.
- Bring emerging ESG issues to CIP's attention.

This governance structure enables us to identify, monitor and, where necessary, take action on sustainability risks.

5. Principal adverse impacts on sustainability

The B.E.S.T process helps us to identify the principal adverse impacts of our investment decisions on sustainability factors. Examples of principal adverse impacts include poor corporate governance or inadequate management of social or environmental impacts.

If significant adverse impacts are identified, we may decide that the entity is not suitable for investment. Alternatively, we may decide to engage with the company to find out more information about issues that have come to light before making our decision. Where we do not have significant concerns, we may decide to invest in the company, and use our influence as investors to engage with the company on improving its management of social or environmental impacts.

Once invested, we continue to monitor entities for sustainability risks. We conduct an ongoing programme of engagement with companies.

When considering environmental, social and governance issues (ESG), we aim to engage companies:

- On significant issues arising from the ESG research that the investment team carries out on all prospective investee companies;
- On issues arising from our voting activity, particularly where we intend to vote against the board;
- On complex, thematic issues such as climate change or human rights, that may pose a threat to our investments over the medium to long-term;
- In response to negative media coverage or alerts from our research providers on an investee company;
- In industry collaborations.

On occasion, we will divest from holdings on sustainability grounds. Our quarterly and annual stewardship reports highlight our most extensive engagements with companies and also detail any divestments from our portfolios on ESG grounds. Our catalogue of stewardship reports can be found on our website.

Our full engagement policy is available on our website. For our directly invested equity holdings, we also use our voting rights as shareholders to express our views on corporate governance matters. Our full voting policy and complete voting record are available on our website.

6. Membership of investor groups to monitor principal adverse impacts

We are an active participant in a number of collaborative investor initiatives, including Workforce Disclosure Initiative, FAIRR, Access to Medicines Index, 30% Club and Carbon Disclosure Project. These initiatives help us to identify emerging sustainability risks in our own investments. Moreover, they provide the opportunity to work with other investors and apply pressure to companies to mitigate their adverse sustainable impacts. We report on specific examples of our collaboration in these initiatives in our stewardship reports.