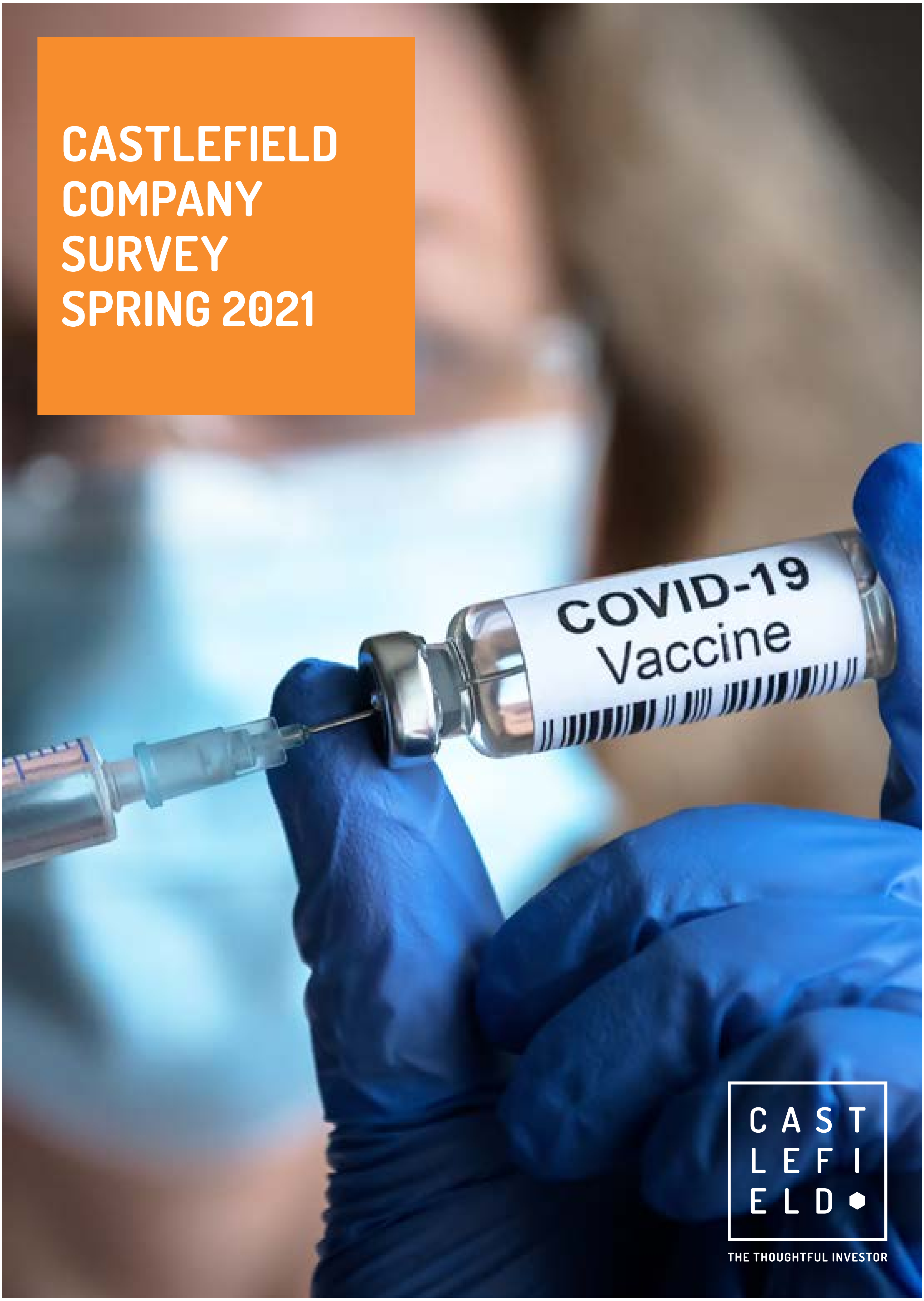
CASTLEFIELD COMPANY SURVEY SPRING 2021



THEMATIC REVIEW

BACKGROUND

2020 was a year in which the "S" in ESG came very much to the fore. Arguably a little neglected previously in favour of environmental and governance issues, social concerns have gained much greater prominence as we all deal with the pandemic. Thoughtful investors like Castlefield have a big role to play in combatting social inequity through engagement with companies on issues like managing and supporting employees.

In early 2020, as the battle against coronavirus began, we were anxious to find out how the companies in which we invest – at home and across the rest of Europe – were dealing with the crisis. We were especially interested in whether the companies we own were demonstrating good corporate citizenship, i.e. they were sticking by their commitments to the ESG factors which persuaded us to invest in them in the first place. Were they delivering on their promises? To learn more, we distributed a survey to around 130 companies, asking them about areas such as financial resilience as well as social issues including furloughing staff, working from home, corporate governance, etc.

When we reported the findings of our first survey in the summer of 2020 we promised both clients and contributors that we would follow up with another survey and we have now done that. Our initial hope for the second survey was that the pandemic and lockdowns would be behind us and we would be talking about recovery. As we write, we are finally seeing the removal of restrictions here at home although many countries are still mired in lockdowns.


COVID-19
TESTING
KEEP THE
DISTANCE

METHODOLOGY & RESPONSES

As with our Spring 2020 survey, we used an online questionnaire with fifteen questions for our investee companies to answer. As before, we wanted to generate as many responses as possible, so the survey had to be simple and able to be completed in ten-to-fifteen minutes.

This time round, we contacted 121 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. Responses were received between 23rd November 2020 and 19th January 2021.

In total, we had 48 individual responses; 45 respondents told us which company they are from while three took the option to remain anonymous. This is a total response rate of 39.7%, about the same as that for our first survey (40%). The average response rate for an email or online survey is close to 30%, so we are happy with ours, which is probably higher than average because the recipients of our survey are 'warm' contacts, i.e. people who should know us.[1] Of the 45 identifiable respondents, we had eighteen replies from companies held in our UK Smaller Companies Fund, managed by David Elton, including one company whose shares we also hold in our UK Opportunities Fund and we had sixteen responses from companies held in Rory Hammerson's European Fund, while the rest of the responses came from companies we own in either our UK Opportunities Fund or the UK Income Fund.

Of the identifiable responses, twenty were from directors of the companies themselves while the rest tended to be from investor relations teams. Most of the responses from actual directors are from smaller companies where the directors do much more of their own investor relations work while larger companies tend to have their own IR (investor relations) teams.

The questions we asked were a mixture of closed questions to help us gather hard data and compare responses with our earlier survey, plus we asked a few open questions and incorporated comment boxes for respondents to add further detail and qualitative information if they wanted to. We received 317 individual comments, although nine of these were of the 'no comment' variety, giving us a net figure of 308, which we are very pleased with. In comparison, we had 280 individual comments in our first survey. Throughout this document, all figures are rounded to the nearest whole number.

Our 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. Within the tight framework of fifteen questions, we focused less on areas such as remuneration and more on recovery. We also ask our respondents to speculate as to what the post-Covid 'New Normal' might look like.

One thing we realised during the Spring 2020 survey was that, in such a fast-moving and uncertain situation, the survey is very much a snapshot in time in that what a company said in late 2020, when a degree of normality had briefly returned, might differ from what they would say only a couple of weeks later during another lockdown. So, the responses should be read with that in mind. Comments below are verbatim as much as possible, although a few have been anonymized. Some comments are from overseas companies where the respondent's first language might not be English.

1. www.surveyanyplace.com (https://surveyanyplace.com/average-survey-response-rate/

SURVEY RESPONSES

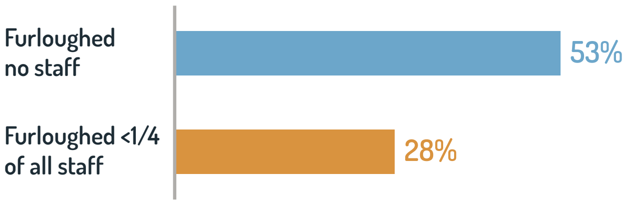
QUESTION 1

The first question asked respondents which company they represent. They could choose to remain anonymous if they wanted to, but only three people out of 48 did so.

QUESTION 2

It appears that furloughing staff was not widely practiced amongst our companies. Question 2 asked, "What was the highest percentage of your employees who were on furlough at any one time?"

53% of respondents didn't furlough any staff and 28% furloughed less than a quarter of all staff. This compared with 60% and 26% in our Spring 2020 survey. Therefore, as furlough and other government schemes were extended into late 2020 and early 2021, our companies tried to avoid it as best they could.



COMMENTS FROM RESPONDENTS

"We have not needed to furlough any staff. Our production facilities have remained open through the crisis, operating to government guidelines. Non-production staff globally have been able to work from home."

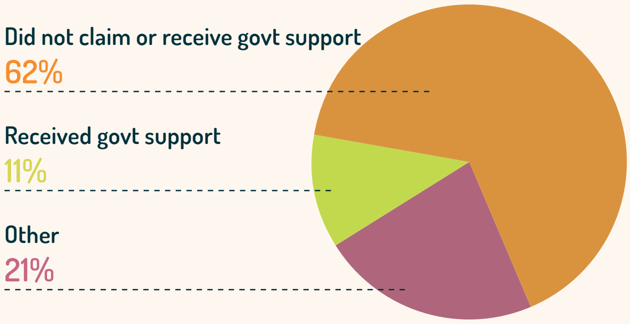
"First lockdown, with offices shut our front-end sales team had no work to carry out and no clients to follow up. Equally, for our operational staff, our clients were also in lockdown so difficult to get hold of and understood that it was not an appropriate time to try and sell their business. Over the course of the first lockdown, we worked to transition all of our staff to be able to work from home where possible, and also the world changed in that our clients and potential buyers have all embraced video calls. Therefore, this second lock down has had minimal impact on the business and no staff have been on furlough since September."

QUESTION 3

Question 3 asked, "In response to the COVID-19 crisis, did you access any other government subsidy schemes such as CCFF (the COVID Corporate Financing Facility) in the UK or similar schemes in other countries? If you received funds from government, how much of it have you subsequently paid back?"

62% did not claim or receive any financial support from government, while 11% say they received financial support from government but, for various reasons, are unlikely to pay it back. Another 21% described their response as "other", highlighting the complex nature of these schemes. We received 27 comments on this question alone.

Back in spring 2020, we asked the question slightly differently but, at that time, 82% had not accessed government schemes and 18% had. Again, we had plenty of narrative comment about this, especially from companies operating in several countries, each with different government schemes in operation.



COMMENTS

"We have reviewed the support available but other than reviewing the deferral of VAT and PAYE payments, which we opted not to utilise, we have not deemed any of the schemes appropriate or applicable to ourselves. We have a firm belief that our purpose is to manage the finances of our clients and therefore have a responsibility to manage our own too. There are more deserving and qualified businesses and sectors who genuinely require the financial support arrangement in place."

"We had some compensations such as reimbursement of PPE, part of the bonuses to employees paid by government, compensation on loss of revenues but we have not claimed any support."

QUESTION 4

No-one will be surprised to read that working from home is a recurring theme in both surveys, especially since what was seen as an emergency measure in Lockdown 1 is now established practice. Only 2% of respondents, the same number as in the Spring 2020 survey, said that they don't have any employees now working from home who had not done so pre-pandemic. These employees are likely to do jobs which cannot be done from home, e.g. service engineers or call handlers. In both surveys, around 80% of respondents had more than 25% of their workforce operating from home, who did not do that before March 2020.

Around 80% had more than 25% of their workforce working from home

COMMENTS

"The telesales department is not able to work from home and have been insistent on working in the office since the end of the first lockdown. In addition, we have several operational staff who have had wellbeing issues working from home, so the office has been made 'Covid secure' for those who wish to come in. Other than these, the vast majority of staff are working from home, which is monitored heavily by KPIs - at worst some departments are the same, however most departments we have found to be more productive."

QUESTION 5

Question 5 was about executive pay. "If, in response to the COVID-19 crisis, the executive team took a pay cut, how long did it last?"

51% of respondents said the executive team did not take a pay cut, compared with 71% in our Spring 2020 survey, suggesting that more C-suite executives took a pay cut as the crisis unfolded in the second half of last year. Interestingly, 19% of executives took a pay cut for more than six months. Many executives did not take a pay cut because their companies have functioned as normal over the last year, but several made sizeable donations to charity. Also, it appears that executives at a number of companies turned down previously agreed pay rises or bonuses in acknowledgement of the situation.

COMMENTS

"In light of the uncertain trading conditions we have implemented mitigating actions to contain costs and protect our financial position as announced in April 2020. Alongside this, [the Chief Executive] chose to reduce his basic salary to zero and all other PLC Board directors agreed to reduce their basic salary or fees by 50% until 30 November 2020."

QUESTION 6

Question 6 asked if the crisis had caused companies to lay off staff permanently; 36% said yes and 64% said no.

It seems that the pandemic acted as a catalyst in many ways, often bringing forward companies' strategic plans with regard to restructuring. So, some layoffs were not caused directly by the pandemic but were part of accelerated future plans, while others were straightforward redundancies. That said, plenty of companies have continued to recruit during the present crisis.

COMMENTS

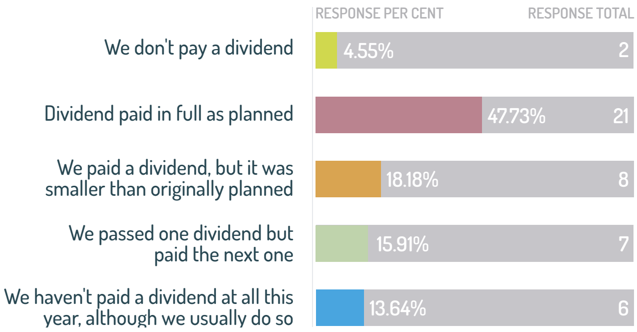
"We have reduced headcount as part of a strategic review, but that was started pre-pandemic related to our new strategy rather than as a response to the pandemic."

"In line with measures taken in the prior years, [we] announced in June that it is accelerating structural optimization initiatives. We anticipate reducing the work force by around 5% or approximately 600-700 compared to March 2020. Attrition based reductions, which have accumulated since March, are expected to contribute c. 300-400 to the reduction."

QUESTION 7

Question 7 asked about dividend payments, which has been a contentious subject over the last year, especially in relation to those companies which took financial support from the taxpayer but still paid out a dividend to shareholders. This is a matter which we and other investors have highlighted to companies during our meetings with them. We asked, "If you usually pay a dividend, what is your policy this year? In the comment box below, please expand on your plans (subject to shareholder approval) for your dividend in 2021."

We asked virtually the same question in the Spring 2020 survey. At that time, 44% of respondents said they would pay in full the dividend previously agreed. Eight months or so down the line from the first survey, 48% of companies said the same thing – little changed. To us, this figure is encouraging in that it indicates the safe nature of many of our investments; for example, green infrastructure companies have continued to generate revenues as normal during the pandemic so there is nothing to prevent them meeting their dividend commitments. That said, 48% of companies did make some concessions to the pandemic in their dividend policy.



COMMENTS

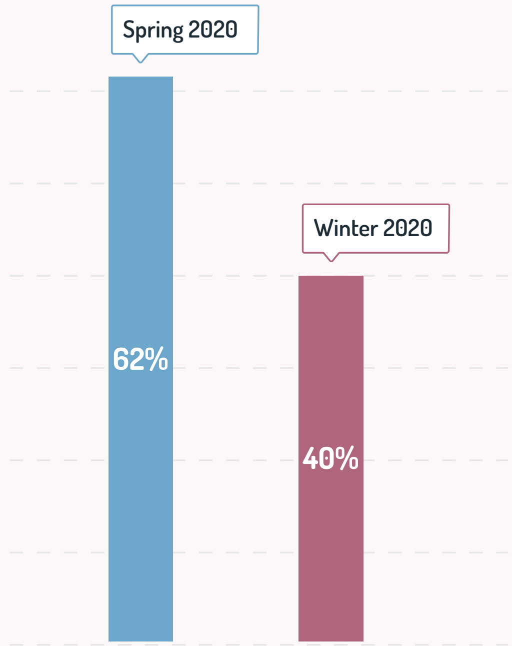
"We postponed our 2019 final dividend, but then paid it as an additional interim dividend in October. The 2020 interim dividend was paid as planned at the same level as the prior year. Plans for the 2020 final dividend will depend on the FY performance."

"By default, the dividend is less than it should have been given that FY20 profits took a significant hit in the final quarter due to the pandemic."

QUESTION 8

Question 8 asked companies if they had taken any actions to strengthen the balance sheet to help them survive the pandemic. Back in spring 2020, 62% of respondents had no plans to do so. In our most recent survey, when we asked a similar question, this figure had dropped to 40% perhaps indicating that some respondents had changed their mind on this issue. Around 30% noted that they had raised new debt and or equity, but this wasn't always purely down to Covid. That said, 30% of respondents fell into the "Other" category, indicative of the complicated nature of this issue.

Percentage of companies who had no plans to take any actions to strengthen the balance sheet:



COMMENTS

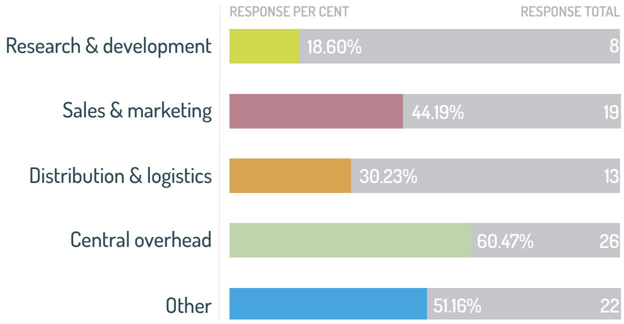
"We did both: extending existing debt and raising new debt. But lately, we reduced it again."

"We raised debt this year, I would not say that it was specifically in relation to the crisis. It helped to improve balance sheet flexibility at a time where we see significant opportunities for the growth of the business."

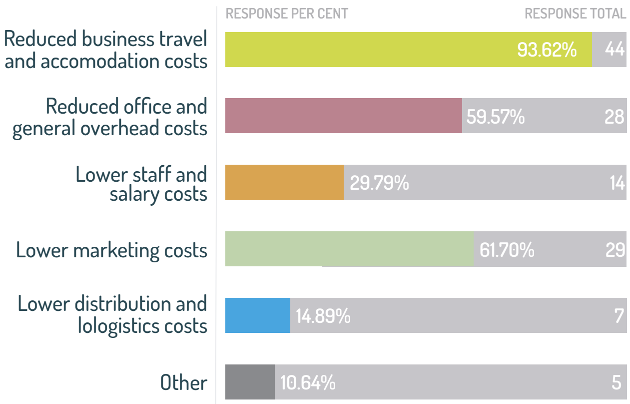
QUESTION 9

Question 9 asked about what cost-cutting measures were put in place to help the business cope with the pandemic. We posed a very similar question in the Spring survey and the answers didn't change much in the eight or so months between. Generally speaking, businesses looked at all areas in order to make savings.

Spring 2020: Excluding staff/wage cuts, where are your cost -cutting efforts focused? Please select as many business areas as apply.



Winter 2020/21: In response to the crisis, what cost cutting measures did you put in place? Please select all that apply.



COMMENTS

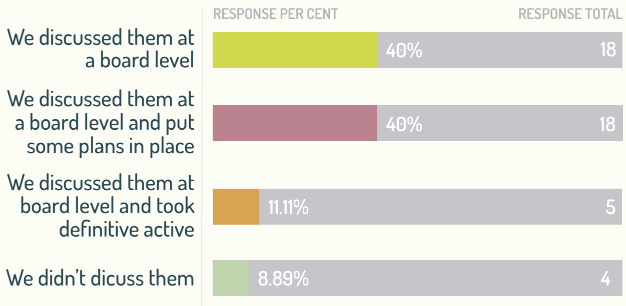
"In response to the national lockdown measures and increased working from home, we reviewed all fixed and discretionary spends. A natural result was reduced travel and subsistence costs and lower utilities costs for our office estate, given reduced usage. We fully closed two of our offices which led to additional cost savings. Marketing activity has shifted from event-based seminars and workshops to online equivalents with far reduced costs, but significant wider coverage. Events run virtually in 2020 attracted in excess of 2,000 participants compared to an average of 300 per year in physical workshops."

QUESTION 10

From this point onwards, the survey focused on risk management and forward-looking strategy. In question 10, we asked, "Before the present crisis, how much did the board consider so-called Black Swan events, i.e. those with low probability but high impact? Are you now putting more thought into planning for events such as another pandemic?"

From a risk perspective, we were pleased to note that boards are at least cognizant of Black Swan events, although only 11% "took definitive action" to prepare for another event.

Before the present crisis, how much did the board consider so-called Black Swan events, i.e. those with low probability but high impact? Are you now putting more thought into planning for events such as another pandemic?



COMMENTS

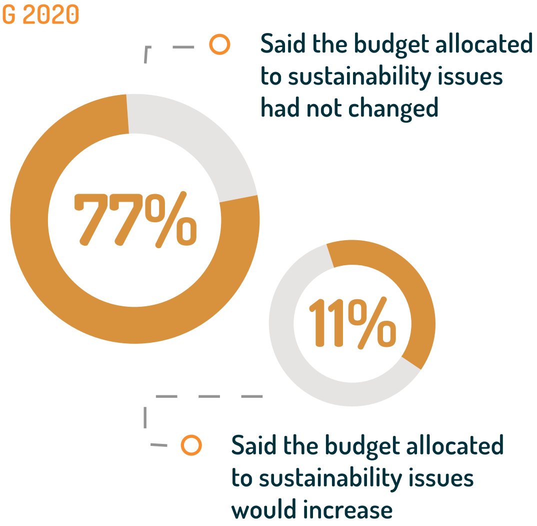
"As part of general risk discussions. At an operational level these things are reviewed as part of business continuity plans and related activities. As a semiconductor company using raw material suppliers located in earthquake zones for example, we are routinely aware of the need to have a plan in place."

"We have gone through a comprehensive groupwide risk assessment exercise with clear mitigating actions identified should similar events happen again in the future."

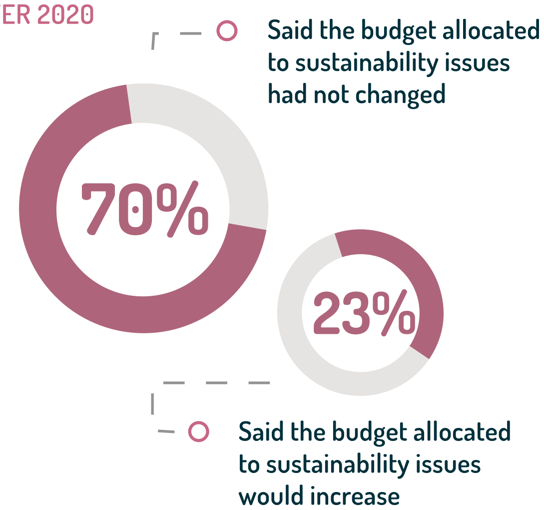
QUESTION 11

The next question asked whether the budget allocated to sustainability issues had increased in light of the pandemic. In the first survey, 11% of respondents said that it would indeed increase while 77% said it would not change. Second time around, the figures were 23% and 70% respectively. It's pleasing to note that one of the positive consequences of this global crisis is seeing our companies invest more in sustainability. It is worth noting though that most respondents said they had planned to spend more anyway.

SPRING 2020



WINTER 2020



COMMENTS

"We have put additional effort into ESG and sustainability during this period and will continue to drive this from Board level and below."

QUESTION 12

We took this idea further in Q12 with a repeat of a question from the first survey, asking, "Since the COVID-19 crisis began, what other measures have you taken which demonstrate the socially responsible culture of your company and to what extent will these measures remain in place once things return to normal?" This question just asked for a freeform text answer and we received 40 comments.

COMMENTS

"We communicated to all staff our expectation that everyone would honour all government COVID19 guidelines, particularly on self and family isolation, and that they work with total commitment for our clients. If staff had foreign holidays booked over the next three months, we asked them not to go and have undertaken to meet any losses staff might suffer as a result. We recruited Wellbeing Champions to support our Wellbeing and Safety Partner in introducing mindfulness, nutritional advice etc. during this period of working at home, in addition to scheduling regular Wellbeing calls for all staff which included the winter months and the recent festive period. These initiatives will remain a feature of company life when things do return to normal."

"The Group has put in place a health protocol to allow operations to resume in order to meet customer demand, while ensuring maximum protection for all of our employees. The measures are mandatory and applicable systematically and consistently at all [of our] sites worldwide, whether in plants, R&D centers or head offices. This protocol will remain in place as long as the virus is active. It is very well adopted by our employees who feel safe in [our] sites where no cluster has been detected so far. On top of that, [the company] has been extremely active in its commitment to the fight against Covid-19, providing resources to a consortium for the manufacture of 10,000 ventilators, and donating 80,000 FFP2/FFP3 masks to hospitals. It has also manufactured masks in some of its own plants. Finally, Covid-19 crisis implied the generalisation of homeworking worldwide for most of the Managers & Professionals. Post crisis, a higher level of homeworking compared to pre-crisis should remain within the Group."

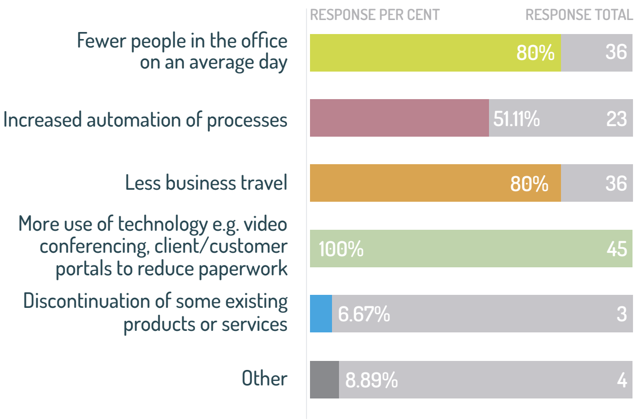
QUESTION 13

With regard to the Future of Work, some of the emergency operational measures implemented by companies during the pandemic crisis are likely to become permanent. We asked companies, "When things do eventually get back to normal, what changes do you think we will see?" Respondents were allowed to tick all responses that applied to this question. 100% said there will be "More use of technology e.g. video conferencing, client/customer portals to reduce paperwork"; 82% of companies think there will be "Fewer people in the office on an average day" and 79% of people think there will be less business travel. Food for thought for us as investors.

COMMENTS

"We believe that we may see a change in perspective relative to Clients and Shareholders in that there may be a greater willingness to conduct video meetings rather than in person. This may come about as a result of each stakeholder being forced into the technology age and also there may become less willingness to have visitors in the office environment. Fewer employees may come in if feeling ill because 1. they have more experience working from home, and 2. other staff will not want them coming into the office sick.."

Some of the emergency operational measures implemented by companies during the pandemic crisis are likely to become permanent. When things do eventually get back to normal, how do you see the future of work in your company?



QUESTION 14

Looking into the future and trying to strike an optimistic note, we asked respondents "in what ways is your company planning to "build back better?" They replied;

Swifter decision-making

Decisions within the company and with customers can be made quicker by using video conferencing for meetings rather than waiting for everyone to be available for a physical meeting which was sometime the case. Making use of more digital marketing and communication to customers.

Sustainability

The pandemic has perhaps given more time to some of our sustainability initiatives, particularly those which entail working with suppliers on improving the sustainable characteristics of our key raw materials. Any acceleration of measures here will be a significant boost to building back better for the long-term.

More use of digital to generate efficiencies

Many of the improvements made during the lockdown will transition over into the post-lockdown period creating greater efficiencies. Electronic signatures and server-based fax delivery/receipt will reduce paper consumption and be more efficient. Some of the changes on the Finance side of the business will create significantly greater efficiency - electronic delivery of invoicing, straight thru processing, electronic payment delivery. Much of this has been forced on vendors that were reluctant to change prior to the lockdown.

The pandemic and ensuing lockdowns have done as yet unquantifiable damage to the global economy and yet it is heartening to see that the companies we invest in responding in such a constructive positive way, often under great pressure. A comment from one company perhaps best sums up the positive attitude of many corporates to the crisis.

QUESTION 14 (continued)

COVID has led to a different way of working, which provides a number of opportunities for us to be a lower cost organisation. We have initiated a restructuring plan to make some of the temporary savings this year more permanent:

- Footprint rationalisation – the past few months have shown that working independently from fixed locations offers many advantages and is possible on a much wider scale than previously thought. Consequently, a number of physical facilities will be closed or reduced in size.

- Reduction in discretionary costs – COVID-19 has triggered a surge in digitalisation, both in terms of how we engage with customers and enabling remote working. We have already invested in mobile working solutions and are now taking this a step further. As such, we will be able to translate much of the savings we have recently achieved to a permanent reduction in discretionary costs.

- Resizing our capacity and headcount reduction – given the varying outlooks for different end markets and each of our operating companies, we will be implementing a targeted headcount reduction programme by business.

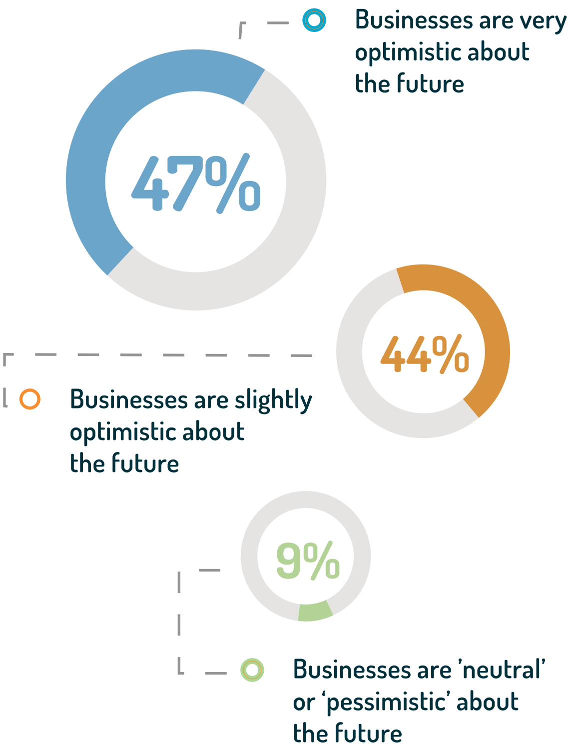
QUESTION 15 - LOOKING FORWARD WITH CONFIDENCE

Looking forward with confidence. Our final question was: "From a business point of view, how do you view the next couple of years? Are you optimistic or pessimistic?" Given the challenges we face, we were greatly encouraged to see that 44% of respondents are "Slightly Optimistic" about the future and 47% of businesses are "Very Optimistic" for 2021 and 2022, with only 9% in total "neutral" or "pessimistic" about the future.

COMMENTS

"Out of crisis comes opportunity! This optimism however is tempered by our expectation of reduced levels of economic activity resulting from the pandemic induced recession."

"A business that fails to adapt will ultimately fail. We see the pandemic as providing an opportunity for sustainable change that will endure. We believe in our business and that we have the energy and agility to develop the opportunities and grow our service or advice proposition for clients. There will be continued consolidation in the market as the pandemic drives uncertainty and the need for the high-quality advice that we provide. We will be able to grow via acquisition as we have proven over the last 15 years and continue to deliver operational efficiencies through our key products and processes."



CONCLUSION

Events in the 21st century have dealt businesses across the world some bruising blows; "9/11" and worldwide terrorism, the Global Financial Crisis of 2007-2008 and now the Covid-19 Pandemic. We are still living with the consequences of the first two events and we will be dealing with the fallout from coronavirus and lockdowns for many years to come. However more than a year on from the start of the crisis, there are grounds for optimism. We have several effective vaccines and, in the UK at least, an impressive vaccination programme which is proceeding apace. We also have a roadmap back to normality which, we hope, will return all our freedoms to us by mid-summer.

A return to normality is all our companies want. Almost every business in the world has been adversely affected by the pandemic. Amongst those we invest in, even super-safe green infrastructure companies have seen demand patterns change, while those at the sharp end of consumer goods and services have had to survive as best they can. It is pleasing to see that, based on our small sample, our companies have survived and that they are now in a good position to thrive once all restrictions are lifted. The businesses which thrive will be the ones which have learned the lessons of the pandemic and have prioritised environmental, social and governance issues.

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