STEWARDSHIP REPORT
Q1 2021

CASTLEFIELD
THE THOUGHTFUL INVESTOR

COLLABORATIVE ENGAGEMENT: CARBON DISCLOSURE PROJECT

In December 2020, Castlefield became investor signatories to CDP (formally known as the Carbon Disclosure Project). CDP are a global not-for-profit charity organisation that operates a standardised disclosure framework that allows investors and companies (among others), to measure, track and compare the environmental impact of a business against historical figures, and also with peers. CDP was formed in 2000 and was the first platform linking the environment with the fiduciary duty of investors.[1]

Since its inception, CDP has gone on to become the holder of the world's largest and most comprehensive dataset of environmental disclosure information.[2] The overarching aim of CDP is to help create a thriving economy for both people and the planet in the long term. This is achieved through greater transparency and accountability of the highest emitting firms. CDP send out questionnaires annually to relevant companies regarding their climate change, forestry and water impacts. These questionnaires are aligned with the Task Force on Climate Related Disclosure (TCFD) best practice guidelines meaning that any CDP disclosures can also be used by companies to help improve disclosure in their annual reports.[3]The data within the responses is then collated and assessed with the discloser given an overall score for each of the relevant questionnaires returned. By achieving signatory status, we have aligned ourselves with numerous other environmentally responsible asset owners helping to reaffirm our commitment in the fight against climate change.

Since its inception, CDP has gone on to become the holder of the world's largest and most comprehensive dataset of environmental disclosure information.

In addition to becoming CDP signatories, we are pleased to announce that in March we signed up to become active participants in the 2021 CDP Non-Disclosure Campaign. This campaign is one of several collaborative engagements that bring together CDP signatories from all over the world with the collective aim of improving environmental disclosure. Every year CDP contacts 7,500 companies to complete their standardised thematic questionnaires in order to improve the quality and comparability of environmental data.[4] Unfortunately, not every company responds to these calls – last year only 33% of the companies contacted responded.[5] This campaign aims to rectify this through investors and asset owners contacting the non-responders directly, utilising their influence as shareholders to implore them to disclose. We have agreed to contact all of the identified companies within our holdings across our different fund ranges by sending letters to those that have either failed to respond or have not provided sufficient information in response to CDP's initial contact. By increasing the quality and availability of climate related data, we hope to help further the transition towards a more sustainable net-zero environment.

In addition to becoming CDP signatories, we are pleased to announce that in March we signed up to become active participants in the 2021 CDP Non-Disclosure Campaign.

Written by Barney Timson

1. https://www.cdp.net/en/info/about-us/what-we-do
2. Ibid
3. https://www.cdp.net/en/articles/climate/on-the-5-year-anniversary-of-the-tcfd-a-critical-reminder-to-companies
4. CDP 2021
5. Ibid

ENGAGEMENT CASE STUDY: DIVERSITY

We have written previously about our engagement with AIM-listed businesses on the topic of diversity. This has continued into the new year, with the team meeting with management of a number of companies to discuss their approach to the issue.

> The executive director population surveyed in a 2019 KMPG report has female directors accounting for just 7%.[1]

While over the past few years, we have seen success in an increasing level of gender diversity for larger listed businesses, within AIM, the sub-market of the London Stock Exchange for small and medium-sized growth companies, gender diversity levels remain low: the executive director population surveyed in a 2019 KMPG report has female directors accounting for just 7%.[1] Other forms of diversity, such as age and ethnicity among others, are more difficult to track, but from our experience, and the findings of The Parker Review which surveyed larger businesses, transparency and reporting has been limited. We believe boards that genuinely embrace cognitive diversity, as manifested through appropriate gender and ethnic representation and a broad spectrum of skills and experience, are more likely to achieve better outcomes for investors.

In the letters we sent to AIM-listed investee businesses, we encouraged the companies to publicly disclose a policy regarding diversity and publish aspirational targets where possible. We also asked companies to outline what internal policies are in place to develop a pipeline of talent to promote women and minority ethnic employees at all levels of the organisation. We believed it was important to discourage boilerplate text and explained that we would instead welcome tangible evidence of what actions the board are taking in order to encourage and improve diversity.

Pleasingly, we have received a good number of high-quality responses as well as offers for calls with either executive management or non-executive directors to discuss the topic and outline their plans, policies and thinking going forward.

Having now conducted these follow up calls, we wanted to take this opportunity, ahead of publishing a separate report on our findings, to highlight a couple of responses from companies that we felt were very strong in their consideration of diversity in their workforce.

Firstly, Mattioli Woods replied with the most substantive response we received to our letter, setting out how diversity is of paramount importance to the company's culture and ethos. It was clear from their detailed and considered response that the company had been addressing this issue internally for some time and were able to provide information around gender, age, ethnicity, and faith as well as additional policies on flexible working arrangements and their work with local charities to provide work experience opportunities. We believe that Mattioli Woods has exhibited a very strong culture and their response continues to demonstrate their commitment to their workforce and local community.

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Secondly, Keywords Studios, an outsourcing provider for the gaming industry, offered a call with their Chief Financial Officer and Investor Relations Director to discuss their ambition and aims regarding reporting on this topic. Keywords have committed to provide detailed reporting on several additional ESG topics in their next annual report and were able to speak to us about a number of initiatives that had been set up to support this. These included the monitoring of diversity at an individual country level rather than just at group level, the establishment of a Global Diversity Council, and their intention to actively seek increased diversity at Board level in succession planning.

Written by
Amelia Overd

1. https://assets.kpmg/content/dam/kpmg/uk/pdf/2019/04/aim-survey.PDF

CRODA AND SUSTAINABILITY IN THE CHEMICALS SECTOR

Company awareness of ESG issues and the impact they have on the world is continuing to increase and we are pleased to see our investee companies stepping up their commitments in this area. Founded in 1925, Croda International is a global company which creates and sells speciality chemicals that are relied on by industries and consumers everywhere. Operating in over 35 countries, Croda is responsible for high performance ingredients and technologies in some of the biggest, most successful brands in the world. Sustainability is at the heart of its business model and they embrace their responsibility to pursue sustainable growth, making it a good fit for our portfolio here at Castlefield. They recently hosted a specialist ESG investor event in which they discussed their 'restorative strategy', whereby they aim to give back more than they take away and the company's aims are to be climate, land and people positive by 2030.

> Croda is responsible for high performance ingredients and technologies in some of the biggest, most successful brands in the world.

Between 2015 and 2020, the company made good progress against six of their sustainability targets. Some achievements during this period were improving energy intensity and ensuring 85% of palm derivatives are now sustainable. In addition, one quarter of the fuel used is now from non-fossil sources. Croda has received multiple commendations for their performance. One of the most notable being credited by EcoVadis who ranked the company in the top 1% of all companies assessed globally.

Croda have categorised future goals into the areas of climate, land and people. In respect to climate, the company's most significant aim is to make a 25% reduction in absolute Scope 1 and 2 emissions. Scope 1 emissions refer to the direct emissions from Croda's owned or controlled sources, whereas Scope 2 emissions refer to the indirect emissions from the generation of Croda's purchased electricity, steam, heat and cooling consumed. In addition to this, they are targeting 100% Scope 3 impact coverage. This refers to all other indirect emissions that occur in their value chain. In addition, we learned that Croda's climate aims for the future will ensure that their products will save two million tonnes of CO_2 emissions.

Regarding their land positive goals, we learned that the business was successfully land net zero in 2020. This means that all of the bio stimulants, adjuvants and seed coatings they use save more land than is needed to grow all of their bio-based raw materials. Despite this, management plan to go even further with their aims for land positivity in the future. For every hector of land used, Croda will save double through the use of their new technologies. It is predicted that the company's technology will save at least 80,000 hectares of land more than in 2019.

> One of their key goals for people positivity was the aim to protect one million more lives from skin cancer with their sun protection technologies.

Their team also discussed how they aim to apply their innovation to increase the positive impact on wider society. For example, one of their key goals for people positivity was the aim to protect one million more lives from skin cancer with their sun protection technologies.

In summary, the event was a good opportunity to go through the details of Croda's ambitious sustainability strategy and hear first-hand from the professionals tasked with achieving those goals. We will be monitoring their progress with interest.

Written by India Harkishin

All information sourced from Croda & Castlefield

www.croda.com

www.croda.com/en-gb/investors/investor-events/investor-events-2021

ENGAGEMENT: SARASIN & PARTNERS AND COMPASS GROUP

A Compass Group subsidiary, Chartwells, has been in the press in recent months over allegations that it has been distributing inadequate and incomplete free school meals packages to vulnerable families.[1]

Our Castlefield fund range does not invest directly in Compass Group. However, our CFP Castlefield B.E.S.T Sustainable Portfolio Growth Fund invests in Sarasin's Food and Agriculture Opportunities Fund which does indeed hold a stake in the catering and support services firm. A Compass Group subsidiary, Chartwells, has been in the press in recent months over allegations that it has been distributing inadequate and incomplete free school meals packages to vulnerable families.[1]

We contacted Sarasin to discuss the matter and to their credit they emailed a detailed response to us within the hour. Their response outlined conversations that Sarasin have had with Compass, which they say has offered some reassurance that the company is moving in the right direction. Compass estimates that 2% of the parcels distributed had shortages and issues occurred due to a number of factors. For example, the company did not receive notice of the new lockdown and so had to mobilise quickly. In addition, they outsourced distribution to the local level, but this meant that there wasn't the usual quality assurance that they'd had in place for previous lockdowns (where parcels had been created centrally). It appears that in the case of the incomplete boxes, the chef had insufficient supplies but decided to send out incomplete boxes so that the recipient families would have access to some food.

Compass is now requiring all food packages to be photographed before being distributed. Photos are sent to Compass centrally to ensure that standards are maintained. Food is also being ordered centrally to ensure that the correct items are being sent to families. Senior management and the board are committed to ensuring that no further problems arise.

Sarasin have assured us that they will continue to monitor the situation closely, as will we, to ensure that these standards are upheld. Given how important these food packages are to so many families, there is very little margin for error.

Written by
Ita McMahon

1. https://www.theguardian.com/education/2021/jan/12/not-good-enough-marcus-rashford-condemns-free-school-meal-packages

COLLABORATIVE ENGAGEMENT

Global Investor Statement in Support of an Effective, Fair and Equitable Global Response to COVID-19

At Castlefield, we believe that it is imperative that lower-income nations are not left behind in the race to roll out a vaccine and it's crucial that the acutely unequal power dynamics at play within vaccine manufacture and global health are recognised and addressed. We have therefore joined other investors calling for a clear strategy to ensure the reasonable distribution of COVID-19 vaccinations globally.

> We joined close to 150 institutional investors who issued a joint statement calling for a fair and equitable global response to the pandemic.

On 23rd February, we joined close to 150 institutional investors who issued a joint statement calling for a fair and equitable global response to the pandemic. This is an increasingly pressing topic. Of the 128 million doses of COVID-19 vaccines administered so far, over three quarters have been delivered in 10 countries which account for around 60% of global GDP.[1]

There are very clear moral issues at the heart of vaccine distribution and the current health and social cost of the pandemic. However, world leaders must also recognise the serious economic consequences of not curbing the spread of coronavirus in less developed markets.

A study from the International Chamber of Commerce Research Foundation concluded that if infection continues to spread across emerging markets while developed economies make progress with their vaccination programmes, the global economy stands to lose as much as US$9.2 trillion.[2] This demonstrates a clear economic argument, an 'investment case' for a coordinated approach to vaccine distribution across the world.

> world leaders must also recognise the serious economic consequences of not curbing the spread of coronavirus in less developed markets.

In the statement coordinated by the Access to Medicine Foundation, institutional investors, including Castlefield, have pledged their support for the Access to COVID-19 Tools (ACT) Accelerator, a global collaborative initiative to accelerate the development, production and equitable access to tests, treatments and vaccines for COVID-19.

The initiative builds on the outcomes from the first virtual meeting of G7 leaders in mid-February, where members announced over US$4.3 billion of investments into the ACT Accelerator and paves the way for a series of G7 and G20 meetings in the coming months, following the creation of the G20 High-Level Independent Panel on financing the Global Commons for Pandemic Preparedness and Response.[3]

You can find the full investor statement at the following link: accessstomedicinefoundation.org/news/investors-issue-urgent-call-for-fair-and-equitable-global-response-to-covid-19

1. https://accesstomedicinefoundation.org/news/investors-issue-urgent-call-for-fair-and-equitable-global-response-to-covid-19
2. https://iccwbo.org/media-wall/news-speeches/study-shows-vaccine-nationalism-could-cost-rich-countries-us4-5-trillion/
3. https://www.who.int/news/item/19-02-2021-g7-leaders-commit-us-4.3-billion-to-finance-global-equitable-access-to-tests-treatments-and-vaccines-in-2021

ENGAGEMENT CASE STUDY: ORPEA

At Castlefield, we are long-term investors by which we mean that our holding period is significantly longer than many of our peers, who may take advantage of small price movements to switch positions in their portfolio. A longer holding period has several advantages, amongst which is the lower costs associated with a fund that does not churn its portfolio. Many funds trade more than 100% of their holdings in a single year. We aren't like that. The advantage which we want to talk about here is the relationship that we are able to build with the companies held in our portfolios. We may be small on the investor register but the type of research we carry out means that we are often sought out by companies for feedback on various issues. This builds trust between the various stakeholders and our reputation as thoughtful investors means that our approach is one of quiet diplomacy. Sometimes we will act as facilitator between a company and an NGO, with whom we also foster relationships.

This quarter we want to tell you about Orpea, the French company involved in Adult Social Care right across the world. Orpea started life in 1989, running care homes and acute clinical care residencies in France until 2005 when it branched out into Germany, Switzerland and Spain. Since then, international expansion has been a driver of growth, and France has become a smaller, though central, part of the business. The business model is very centralised and one of the things we fully endorse is a disciplined systematic way (the Orpea way) of doing business. This makes it very simple for the centralised management team to monitor progress and integrate best practice across the group, which looks after well over 100,000 beds.[1]

This does present a challenge, of course, with the different employment laws which can vary widely from Brazil to Belgium and the Czech Republic to Colombia. We became aware of a piece of work which was published by the Association of Global Unions (UniGlobal), highlighting several issues to do with adult social care, and we were perplexed to see that Orpea, despite its discipline and excellent results during the COVID-19 pandemic, was not scoring highly on UniGlobal's results. We contacted UniGlobal to find out the reasons behind this and had an in-depth meeting with the team who explained to us why this was. We quickly understood that the potential problem was more about Orpea's lack of response rather than something else.

So, we contacted the company, where we foster regular and very open communication and told them that UniGlobal was missing lots of required data. We found out very quickly why there had been no response and were able to return to UniGlobal to point them in the right direction with their questions. We were pleased to see that the company responded very quickly to all the points that UniGlobal had highlighted and this means that the right people are now talking to each other. Labour union matters are complex and can vary significantly throughout the world. Whilst we are not experts on collective negotiation or union law, we are aware that tensions between unions and management are more likely to be resolved if the right people from both sides are able to find each other so that they can listen and respond to the other party's points.

Article by
Rory Hammerson

1. https://www.orpea-group.com/le-groupe/qui-sommes-nous-en/orpea-worldwide

Orpea started life in 1989, running care homes and acute clinical care residencies in France until 2005 when it branched out into Germany, Switzerland and Spain.

VOTING ACTIVITY: Q1 2021

As investors, we believe that we have a responsibility to our clients, as well as the companies that we hold, to vote on issues such as executive pay, director nominations and political donations. We aim to vote on all the stocks held in the collective funds we manage. We consider each resolution carefully and often engage with companies where we disagree with their approach. We have an in-house set of voting guidelines that we update annually. The guidelines ensure that we vote consistently across all our fund holdings and are made publicly available on our website, as is our full voting history.

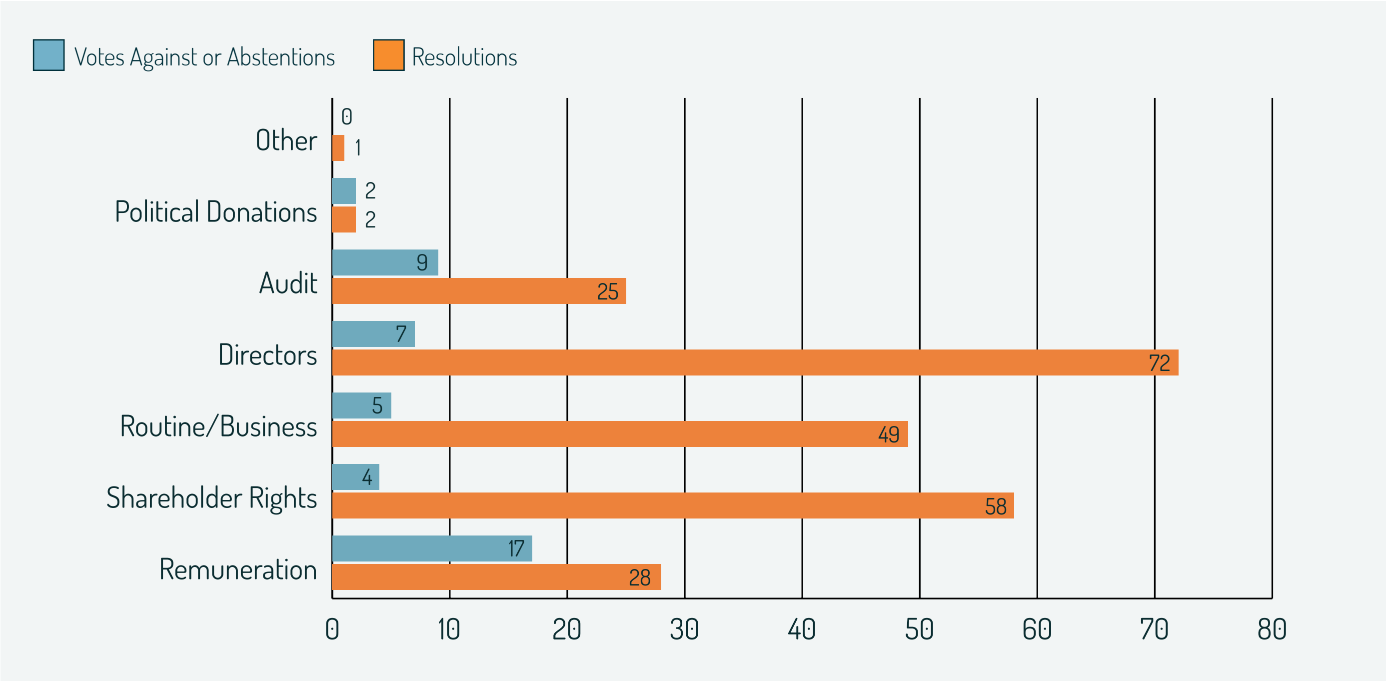
RESOLUTIONS

Number of resolutions where votes were cast For	191	81.3%
Number of resolutions where votes were cast Against	41	17.4%
Number of resolutions where votes were Abstained	3	1.3%

During the quarter, we voted at 24 meetings hosted by our investee companies, with a total of 235 resolutions.

1.	REMUNERATION	We vote against excessive pay awards and awards that are not attached to sufficiently stretching performance targets. Particularly in light of the impact of coronavirus, we believe it is important that executive pay is reflective of the experiences and outcomes of all stakeholders.
2.	DIRECTOR INDEPENDENCE & EFFECTIVENESS	Non-Executive Directors (NEDs) who sit on the boards of listed companies should be independent in order to be effective. The UK Corporate Governance Code sets limits on tenure which we apply across all geographies as a factor to determine independence. We have also long taken the view that directors should not hold a lot of other external positions. This is because, at a time of crisis, we expect directors to have enough additional time to dedicate to the company and the issues that it is facing.
3.	SHAREHOLDER RIGHTS	This topic includes votes on issues such as share placings that a company might undertake to raise capital, as well as requests a company might make to repurchase its own shares. These requests have the potential to be detrimental to existing shareholders. One topic which falls under this heading, which we will always vote against, is the request to hold meetings with just 14 days' notice, as we do not believe this is sufficient time for shareholders to prepare to exercise their voting rights.
4.	POLITICAL DONATIONS	We do not think it is appropriate for companies to make political donations and consequently will always vote against a resolution seeking permission to do so.
5.	THE AUDIT PROCESS	Auditor independence may be compromised if the auditor has been in place for a long time and no tendering process has been undertaken, or if fees paid are for services other than their primary audit function.
6.	ROUTINE/BUSINESS:	Items in the category include resolutions that are often uncontentious, such as accepting a company's Financial Report & Accounts for the previous year. It also includes resolutions to approve dividends.
7.	OTHER	This category may include certain resolutions proposed by shareholders and votes on topics such as Environmental, Social or Governance (ESG) issues and reporting.

Resolutions during the quarter by category and how frequently we voted against or abstained:



UK Voting Season

While the number of meetings we are reporting on for the first quarter of the 2021 is relatively low, the majority of our voting activity takes place between April and July. This is known as 'voting season' or 'proxy season' and occurs due to company reporting deadlines, with a large number of companies having a financial year which corresponds to the calendar year. During Q2 in 2020, we voted at 89 company meetings, compared to a figure of 197 for the full year, around 45%.

Voting season last year was thrown into disarray by the emergence of the pandemic, with companies being forced to make use of technology to host virtual AGMs. We expect virtual and hybrid meetings to persist this year as COVID-19 and government restrictions continue to play a significant role, but also into the future in order to increase accessibility for smaller shareholders.

Looking ahead now to the upcoming voting season in 2021, we feel that companies will experience the growing investor sentiment towards environmental, social and governance (ESG) considerations, with the prior year having brought many of these issues to the forefront of the public consciousness.

We feel that executive pay will be under increased scrutiny this year. In our experience, many companies opted to proceed cautiously last year, taking into account the wider stakeholder experience by reducing salaries temporarily or foregoing bonuses due to the pandemic. However, moving into this proxy season and beyond, we expect that companies may see more greater challenge on resolutions regarding pay.

We are also seeing greater emphasis on using voting as a mechanism to express concerns around boardroom diversity. With the deadline for voluntary targets set by the Parker Review, which recommends boards have a minimum of one ethnic minority member by 2021 now rapidly approaching, companies who have not at the very least developed a plan to meet this target, may find themselves facing challenge.

CHANGES TO OUR VOTING GUIDELINES FOR 2021

Written by
Ita McMahon

As equity investors, we have the right to vote at the AGMs and other shareholder meetings of the companies that we hold in our funds. We have a set of guidelines, updated annually, that set out some general principles on how we will vote in given circumstances. We take our voting responsibilities seriously and have thought carefully about the principles that underpin our voting decisions. These decisions cover a range of issues, from re-electing directors to re-appointing the auditor. Every year we review our voting guidelines and amend them if the need arises. This year, we made two main changes.

1. LOWERING THE BONUS CAP

Firstly, and most significantly, we lowered our variable pay limit.

What does this mean? Variable pay means bonuses – variable because they should increase or decrease depending on how well the company has performed. Investors have the opportunity to vote on the pay arrangements of senior company executives. At Castlefield, we have long advocated for a more restrained approach to directors' pay. For a number of years, our policy was to vote against executive pay arrangements where the variable pay potential was more than three times an executive's base salary. This year, we have lowered that limit further and will vote against schemes where variable pay is more than double the base salary. We suspect we are one of a very small number of investors to set a cap on variable pay. Our reason for lowering it was in part because we know that there is strong public sentiment to rein in executive pay (and here we are using public sentiment as a proxy for our clients' views). Secondly, the pandemic should make all companies re-evaluate how they treat all employees, not just those at the top. In our view, there will be increased scrutiny of executive pay in the years ahead and greater calls for more equitable pay arrangements. We will be raising this issue with companies, not just through our voting, but through our conversations with board members as well.

2. AUDIT FEES

The other change to our voting guidelines this year relates to audit fees. Our guidance used to allow auditors to carry out a certain amount of non-audit work up to a maximum of 100% of audit fees. However, having seen many more audit failings in recent years, we decided to take this to zero – i.e. that to avoid any potential conflict of interest, an auditor should not be carrying out any non-audit work. This year we have changed this slightly and have incorporated a £10,000 allowance for the auditor for de minimis services. This is to allow for small projects that it would be unrealistic to tender for or for tasks where the auditor would be best placed, or even required, to carry out the work (e.g. providing a report to a lender). In our view, £10,000 is small enough to avoid any conflicts.

MEET THE TEAM

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