STEWARDSHIP REPORT
Q3 2021

CASTLEFIELD
THE THOUGHTFUL INVESTOR

2021 CASTLEFIELD SYMPOSIUM: NET ZERO – WILL COP26 BE A COP-OUT?

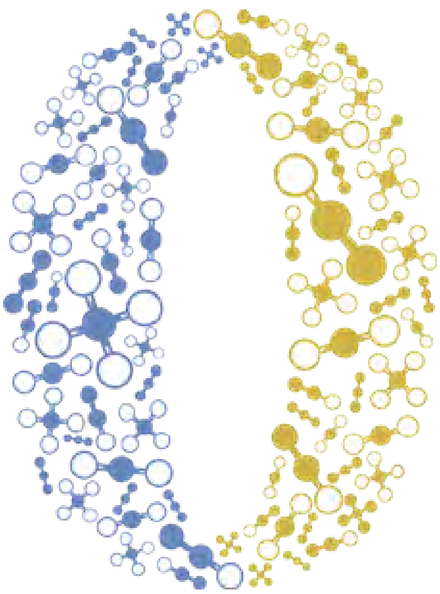
In our fourth Castlefield Symposium, held in September, we discussed what Net Zero means and what's required to achieve it, and whether or not COP26 has the potential for success.

As global temperatures rise, we can see the effects of climate change on our world. Achieving Net Zero carbon emissions by 2050 is a target we must meet in order to fight against climate change. In our fourth Castlefield Symposium, held in September, we discussed what Net Zero means and what's required to achieve it, and whether or not COP26 has the potential for success.

Matthew Bell OBE, Director and Co-Founder at Frontier Economics kicked off the Symposium by delivering a powerful and insightful keynote presentation. He began by giving us some background on the event. COP26 is the 2021 United Nations climate change conference and is part of the process which aims to address climate change globally. Matthew noted that there has been a long history of COP meetings.

He outlined a few criteria we can use to measure the potential for success of COP26. Firstly, we need to see national commitments to reduce emissions toward the 1.5-2-degree centigrade warming path needed to keep global temperatures at a manageable level. In addition, higher income countries who have benefitted disproportionately from greenhouse gas emissions need to financially support lower income countries who are still in the developing stage. There also needs to be action to allow needed supply side technologies like carbon capture and storage, hydrogen and heat pumps plus demand side actions such as changing food consumption. Matthew went on to stress the importance of having a system of checks and balances in place to help hold governments accountable to meet their targets as another important measure of the success of COP26. If we can realise all four of these things, then we have a better chance of breaking the link between economic growth and emissions growth.

The second part of the Symposium took the form of a Q&A session, focusing on the actions which companies, governments, communities and individuals should consider in order to achieve Net Zero. We had five panel experts sharing in this segment: Julia Creasey (Croda



International PLC), Teni Ekundare (FAIRR), Ita McMahon (Castlefield), Professor Jonatan Pinkse (Alliance Manchester Business School) and Peter Uhlenbruch (ShareAction). The session was chaired by Olivia Bowen, financial adviser and Castlefield partner.

The panel discussion covered a wide range of topics including what we need to see from individuals, investors and companies in order to reduce their carbon emissions. It was discussed that at a top management level, multinational corporations need to adopt more radical views on Net Zero and sustainability. Net Zero and sustainability are at the forefront of things today and companies are being required to think beyond short term economic growth in order to be successful. The panelists went on to discuss specific examples of company targets and roadmaps toward a Net Zero future. The responsibility for companies to avoid greenwashing was mentioned along with the importance of labelling consumer products with energy efficiency ratings. Management teams within companies were also discussed, as corporate governance needs to guide companies in a sustainable direction. For investors, having a portfolio with strong sustainability criteria is also crucial in order for us to be successful in reducing carbon emissions. At an individual level, the discussion also highlighted the importance of a sensible approach to air travel.

Action is currently being taken towards the fight against climate change and it is clear that, on a global level, we need to be ambitious with setting targets, working consistently towards them and auditing our progress. The panelists represented the private, investor, academic, government and NGO sectors and it is clear that we need concerted efforts from all of these areas to be successful in meeting targets.

The full recording of the Castlefield Symposium can be found on our website; https://www.castlefield.com/news-media/videos/castlefield-symposium-2021-recording/

Written by India Harkishin

THE UK STEWARDSHIP CODE

Castlefield among first signatories to the new UK Stewardship Code

In early September, the Financial Reporting Council (FRC) published a list of successful signatories to their recently refreshed UK Stewardship Code. Having previously been Tier 1 signatories to the previous edition of the Stewardship Code, we were keen to meet the high standards for stewardship and engagement set out by the FRC and submitted our 2020 Annual Stewardship Report in order to be considered for signatory status.

Signatory of:

UK STEWARDSHIP CODE | 2021

Of the 189 applications received by the FRC, 125 were deemed successful, showing the rigorous application process that has been implemented. Unlike signatory accreditation to previous codes, signatories will have to submit a report for review every year and be seen to improve their stewardship activities and reporting in line with evolving market practice in order to maintain their status.

The publication of the list of signatories comes after the FRC first announced their intentions to refresh the requirements to incorporate additional reporting expectations, such as how climate factors feature in decision-making, and an increased focus on demonstrating real world outcomes.

Sir Jon Thompson, FRC CEO, said:
"Congratulations to all those who have become signatories to the UK Stewardship Code, which is recognised globally as a best-practice benchmark in investment stewardship."

https://www.frc.org.uk/news/september-2021/frc-lists-successful-signatories-to-the-uk-steward

UN PRINCIPLES FOR RESPONSIBLE INVESTMENT

Castlefield has signed up to the UN Principles for Responsible Investment

Castlefield is proud to announce that it has become an official signatory to the Principles for Responsible Investment supported by the United Nations (UN PRI).

Castlefield will continue to leverage its expertise and reputation as the Thoughtful Investor to educate investors and promote Environmental, Social and Governance (ESG) values within the investment management industry.

The UN PRI is an independent body that was set up to promote more responsible investing around the world. Signatories to the UN PRI agree to incorporate ESG issues into their investment analysis and decision-making processes. By doing so, signatories contribute to developing a more sustainable global financial system.

Castlefield's Ita McMahon said: "While we have always specialised in responsible investments, becoming a signatory to the UN PRI marks an important milestone for us. In joining the PRI, we hope to build on our recent success of becoming signatories to the UK Stewardship Code, which recognises best practice in investment stewardship. We look forward to working with the PRI and its network to advance the ESG agenda."

THE WORKFORCE DISCLOSURE INITIATIVE

The Workforce Disclosure Initiative (WDI) is an investor coalition that aims to improve corporate reporting on employees and supply chain working standards. We've been a supporter of the WDI for a number of years: as responsible investors, we want to understand how companies treat their staff and how they uphold human rights in their supply chains.

> WDI's reach is growing year-on-year: in 2020, over 140 companies made disclosures through the WDI, up 20% on the previous year.[1]

The coalition is made up of 53 investor institutions, representing $7.5 trillion of assets under management. Now in its fourth year, WDI's reach is growing year-on-year: in 2020, over 140 companies made disclosures through the WDI, up 20% on the previous year.[1] The combined data provides unique insights into the working conditions of over 12 million workers globally.[2]

In terms of what we and other investors do, every summer we work with the WDI coordinators at ShareAction to lobby more companies to complete the WDI questionnaire. We often find that companies, particularly those that haven't heard of the WDI previously, might not be receptive in the first year that they are asked. It's our role as investors to make the case for their involvement in the WDI and to keep applying pressure over time. Moreover, data shows that companies participating in WDI increase their disclosures over time.[3]

The team at Castlefield has contacted over a dozen companies in the past few months. So far this year, two more firms that we invest in have committed to participating, and we're in discussions with a third.

The window for WDI submissions closes at the end of October and the submitted data will be made available to investors. The questions cover a range of employee-related issues, from diversity and pay to worker representation and safety. We can use that data to help understand the relative strengths and weaknesses of companies when it comes to managing their workforce.

The WDI survey covers[4]

1.	Governance
2.	Risk assessment
3.	Workforce compensation
4.	Diversity and inclusion
5.	Workforce pay levels
6.	Stability
7.	Training and development
8.	Health, safety and wellbeing
9.	Worker voice and representation
10.	Grievance mechanisms
11.	Supply chain transparency
12.	Responsible sourcing
13.	Supply chain working conditions

1. https://shareaction.org/investor-initiatives/workforce-disclosure-initiative
2. https://api.shareaction.org/resources/reports/Workforce-Disclosure-2020.pdf pg. 9
3. https://api.shareaction.org/resources/reports/Workforce-Disclosure-2020.pdf pg. 17
4. https://api.shareaction.org/resources/reports/Workforce-Disclosure-2020.pdf pg. 20 &21

GYM GROUP

As part of our ongoing conversations with companies on energy efficiency and net zero, we had a positive meeting with Gym Group over the summer. The company originated from a sustainability venture capital fund and sustainability considerations remain central to the firm's ethos. The company has strong social values and, through its low-cost business model, it aims to make exercise more accessible to a wider proportion of the population.

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In our meeting, senior representatives talked us through their low carbon gym model: a significant proportion of the company's carbon emissions come from heating, lighting and air conditioning, and measures have been taken to reduce energy consumption and increase efficiency. The company is also using heat pumps at smaller gyms and trialling larger heat pumps for its bigger sites. In addition, Gym Group procures renewable energy where

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possible. Another innovative feature, this time on resource efficiency, is that the company recycles the condensation from its air conditioning units into water for flushing toilets.

At the time of our meeting, Gym Group was in the process of setting itself a net zero carbon target. What became clear from our conversation was that even though the company is not an energy intensive business, it is already planning for the transition to a zero-carbon economy and is considering how changes to electricity supply, customer transportation and so on will affect company operations.

Finally, we touched on the area of climate change and governance. This is increasingly an

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area of interest for us as investors and we are keen to see the highest levels of management having direct oversight for climate-related decision-making. At Gym Group a sustainability working group reports directly to the executive team, which in turn reports to the board.

Since the meeting, Castlefield has participated in a "materiality assessment" commissioned by Gym Group to make sure that the firm is taking action on its biggest social and environmental impacts. The assessment is often carried out by an independent third party that interviews a range of stakeholders to collate views on the company and its efforts to address sustainability issues. We are always keen to participate in such activities as it enables us to provide input at a crucial moment when a company is developing, or updating, its carbon, energy or sustainability strategy.

GREEN BONDS

With an ever-increasing focus on cutting global emissions, there is a growing need to finance low-carbon energy and environmentally sustainable projects and technologies. Given the scale of the funds required, capital markets look set to provide the majority of this funding through a variety of financial instruments such as green bonds.

> Green bonds are debt instruments issued in order to raise capital to finance infrastructure and projects aimed at improving environmental issues.

Green bonds are debt instruments issued in order to raise capital to finance infrastructure and projects aimed at improving environmental issues. The majority of these issues to date have been conventional investment-grade bonds (typically less risky with higher credit ratings) and have been issued by sovereign states or banks.

In September, the UK issued £10 billion of Green Gilts in the world's largest inaugural sovereign green bond issue, with a second issuance planned for later this year.[1] The Chancellor of the Exchequer, Rishi Sunak, said:

"This funding will be used to finance vital green government projects across the country, including things like clean transportation, renewable energy and preserving our natural environment. In helping us to build back better and greener, it will also help to create jobs as we transition to net zero."

There are many positives associated with green bond programmes and at the end of 2020, the green bond market was reported to be worth $1.1 trillion.[2] The demand for green, sustainable, and social investment products is growing rapidly, and investing in a bond which will specifically and exclusively fund environmentally-friendly projects could be a way for investors to incorporate their values into their investment portfolio.

However, there are still some gaps which we feel need to be addressed by issuers. Currently, the definition of what constitutes a 'green' project is not entirely clear. There are a number of organisations that have provided guidelines for issuance, such as the International Capital Market Association (ICMA), but most of these are voluntary measures leaving most issuers to self-certify.

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Allocation of funds, transparency and ring-fencing of funds are crucial aspects required to ensure the credibility of any green bond programme. To assess the success and impact of an investment in a green bond, investors need to know the types of projects that are deemed eligible for funding and the method for the selection of these projects.

As recommended by the ICMA, proceeds from a green bond issue should be clearly ring-fenced and tracked to ensure that they are solely used for environmentally-friendly projects. If the funds are not separate, it is possible that the cash could be merged with other forms of non-green financing and that proceeds from non-green sources could be used to service the interest payments for the bond.

Finally, we believe that regular reporting on how the funds have been used and the impact of the funded projects is essential to grow investor confidence in the credibility of green issues. We are hopeful that landmark sovereign issues can set the standard and market expectations for other issuers.

> The market remains interesting, but we do not take the green bond label at face value.

The market remains interesting, but we do not take the green bond label at face value. Due to the voluntary nature of green bond standards, every bond issue must be assessed to see how far best practice has been applied. External review and accreditation from third parties such as the Climate Bonds Initiative is another thing we would view favourably.

Currently, from a risk and return perspective we are unlikely to be investing directly in green bonds at this point in time, particularly sovereign issues, but continue to assess the market for potential opportunities and to monitor best practice.

Written by Amelia Overd

1. https://www.gov.uk/government/news/uks-first-green-gilt-raises-10-billion-for-green-projects
2. 'Sustainable Debt: Global State of the Market 2020', Climate Bonds Initiative

CDP NON-DISCLOSURE CAMPAIGN UPDATE

CDP hold the world's richest and most comprehensive climate reporting dataset thanks to their involvement in this sector for over two decades.[1]

Earlier this year, we took part in CDP's Non-disclosure campaign. CDP (formerly the Carbon Disclosure Project) are a global not-for-profit charity with a goal of making environmental reporting mainstream. CDP do this by annually operating detailed climate change, water and forestry disclosure frameworks aimed at companies, investors, cities, states and regions. The idea behind these frameworks is that by increasing the quality and quantity of environmental disclosures, over time, performance can be tracked, and any areas of concern are highlighted and can be improved. CDP hold the world's richest and most comprehensive climate reporting dataset thanks to their involvement in this sector for over two decades.[1]

Every year, CDP contacts thousands of the highest emitting companies globally to get them to complete their environmental questionnaires. Unfortunately, not every company responds to these initial disclosure requests. This is where the non-disclosure campaign proves to be an effective tool. The campaign brings together numerous institutional investors who, as CDP signatories, all have the collective aim of improving environmental disclosure. These institutional investors can be more persuasive than CDP due to the large shareholding that they have in these companies. As a result of this, institutional investors can use their power and significant voice to implore the non-responders to disclose.

As part of the 2021 campaign, a total of 168 investors with combined assets under management of $17 trillion approached over 1300 companies regarding environmental disclosure.[2] At Castlefield, we were very keen to get involved in this and we sent letters directly to seven of our investee companies and co-signed a further five. These letters reiterated the importance of disclosing environmental data so that companies can understand any potential climate-related risks, highlighted the benefits of comparable, complete and reliable data for investment analysts carrying out company research and urged the companies to respond to CDP's climate questionnaire.

As a direct result of our engagement, we are pleased to announce that five companies subsequently made the decision to take part and completed CDP's climate change questionnaire. This was very encouraging because historically, on average, only 20% of companies approached in the non-disclosure campaign end up responding to the request and the number for full disclosure to CDP is much lower.[3] Given that this is the first time we have taken part in this campaign, we are very pleased with how successful it has been. Disclosure however is an ongoing process, and we cannot rest on our laurels. As things stand 70 of our investee companies currently report their environmental data to CDP and we aim to assist CDP in growing this over the coming years. We look forward to getting involved once again in next year's non-disclosure campaign.

Written by Barney Timson

1. https://www.cdp.net/en/info/about-us/what-we-do
2. https://www.cdp.net/en/articles/media/a-record-168-investors-with-us17-trillion-of-assets-urge-1300-firms-to-disclose-environmental-data
3. CDP

VOTING ACTIVITY: Q2 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.

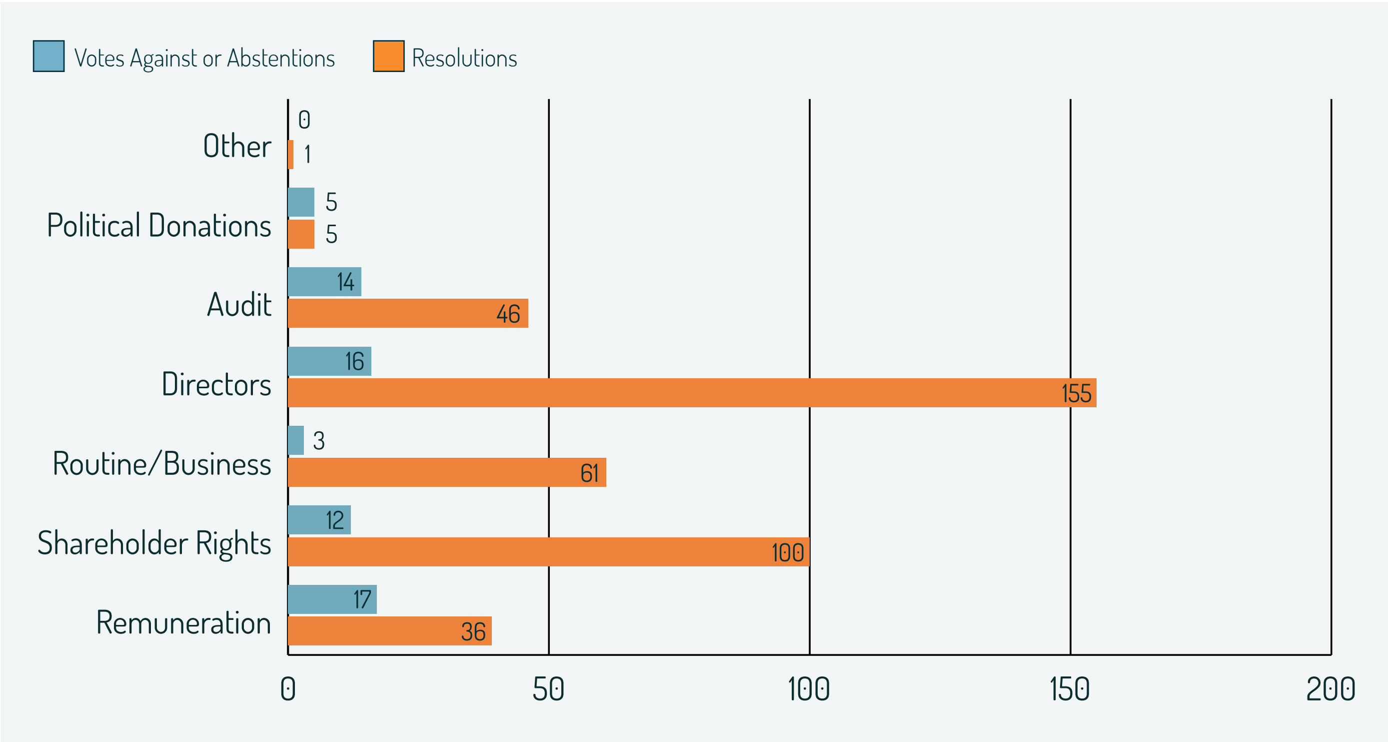
RESOLUTIONS

Number of resolutions where votes were cast For	337	83.4%
Number of resolutions where votes were cast Against	61	15.1%
Number of resolutions where votes were Abstained	6	1.5%

During the quarter, we voted at 32 meetings hosted by our investee companies, with a total of 404 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:



'Other' Resolutions

As we've discussed previously, we have seen an increase in the number of Environmental, Social and Governance (ESG) resolutions being put forward at AGMs by either management or other shareholders. This quarter we saw National Grid, whose shares we hold, put their climate action plan up for an advisory shareholder vote.

As a part of their climate action plan, the company has outlined its intention to reduce its direct Scope 1 and 2 emissions by 80% by 2030, 90% by 2040 and to net-zero by 2050 from a baseline level of 1990. Additionally, the company's Scope 3 emissions will be cut by 20% by 2030 compared to a 2016 baseline. This is particularly important as the Scope 3 category includes the gas and electricity that is sold to its customers.

We are encouraged to see more businesses consulting shareholders about their approaches to address climate change and committing to new targets to reach net zero. Transparency is very important for investors and other stakeholders to be able to assess whether these targets are ambitious enough and whether, over time, the company appears to be delivering the intended reduction in emissions. National Grid will report on its climate plan annually, as well as providing a shareholder vote to approve this reporting going forward.

UPCOMING THEMATIC REPORT: DIVERSITY & REMUNERATION

Having now completed our extended engagement project with AIM-listed companies on the topics of diversity and remuneration, we are pleased to say that we will be publishing a standalone report on our findings. The report will highlight areas in which we feel companies are improving as well as the gaps we believe need to be addressed more systematically by smaller businesses. We will also be able to highlight a few of our investee companies that we feel stand out as leading the way in their approaches.

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We have provided updates on this project within previous editions of our quarterly Stewardship Reports but to provide a recap, in our experience dealing with smaller listed businesses, we identified two key topics where there was significant room for improvement.

On diversity, while we have seen success in an increasing level of gender diversity for larger listed businesses in recent year, the picture within AIM, the sub-market of the London Stock Exchange for small and medium sized growth companies, is rather different: the executive director population surveyed in a KMPG report had 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.

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With regard to remuneration, when we compare with larger listed businesses, the amount of information published by AIM-listed businesses is less detailed and the requirements are far less prescriptive. As investors, we view increased levels of disclosure favourably and support adherence to best practice as defined by the UK Corporate Governance Code where feasible and so we have been highlighting this to companies as well as encouraging a separate advisory resolution on remuneration to be put to shareholders each year at company AGMs.

We began our engagement by sending letters out to our AIM-listed businesses and for some time have been following up with meetings with management teams and member of the Board where necessary to improve our understanding of how these issues are viewed and have had a large number of very productive and informative calls.

> The majority of companies were very open and willing to discuss the topics in detail. Most were also very interested in hearing our suggestions on how they could improve their reporting standards.

One of the most pleasing results from this engagement projects was that the majority of companies were very open and willing to discuss the topics in detail. Most were also very interested in hearing our suggestions on how they could improve their reporting standards. Such engagements are a key part of our investment process, whilst continuing to build long-term and constructive relationships with companies on behalf of our investors we believe can help aid the outcome of our engagements.

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

MEET THE TEAM

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