SUSTAINABLE FUNDS QUARTERLY

Q2 2022

In this report...

CASTLEFIELD

THE THOUGHTFUL INVESTOR

MARKET COMMENTARY

Groundhog Day. The same unhappy combination of factors which affected markets in the first quarter of 2022 continued into the period from April to June; Russia's invasion of Ukraine, the lingering pandemic plus an extremely challenging energy market in Europe each contributed to dramatic rises in inflation, with all the damage that does, leading to a first half of 2022 the like we have not seen for many years. According to JP Morgan, this is the worst first six months of the year for developed market equities in over fifty years.[1] That said, our problems are trivial compared with the suffering of the people of Ukraine.

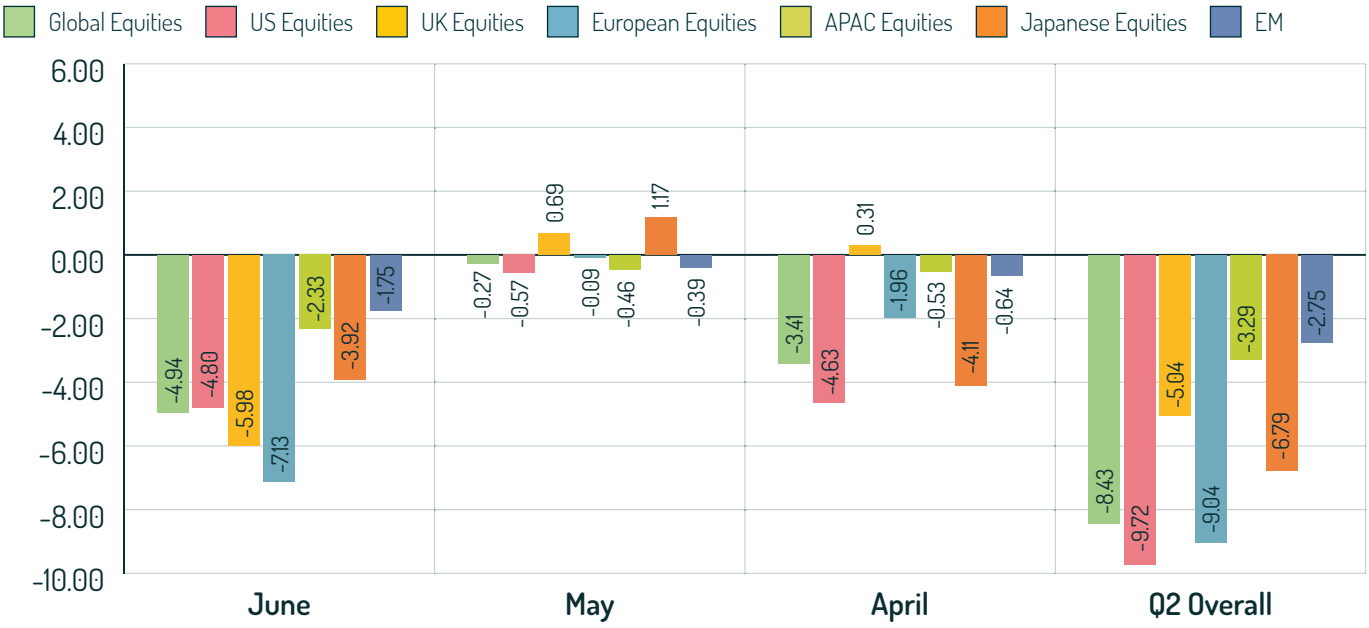
Markets now anticipate interest rate rises across developed markets, with the US perhaps reaching 3.4%, UK 3.0% and the Eurozone 1.6% by 2023[2] as central banks become more stridently hawkish in response to above-target inflation.

> Boris Johnson's travails continued and, as transgression is piled on top of scandal, the public's opinion of politics and politicians plumbs new depths each month.

At home, Boris Johnson's travails continued and, as transgression is piled on top of scandal, the public's opinion of politics and politicians plumbs new depths each month. On top of all the other problems currently confronting businesses and consumers, we had to contend with rail strikes, and there is more industrial action in the offing. Readers will not need reminding about the baleful effects of inflation, sufficient to note that the figure for May was 9.1%, our highest figure since 1982. Along with energy costs, other contributors to the rising

1. https://am.jpmorgan.com/gb/en/asset-management/adv/insights/market-insights/market-updates/monthly-market-review/
2. https://am.jpmorgan.com/gb/en/asset-management/adv/insights/market-insights/market-updates/monthly-market-review/

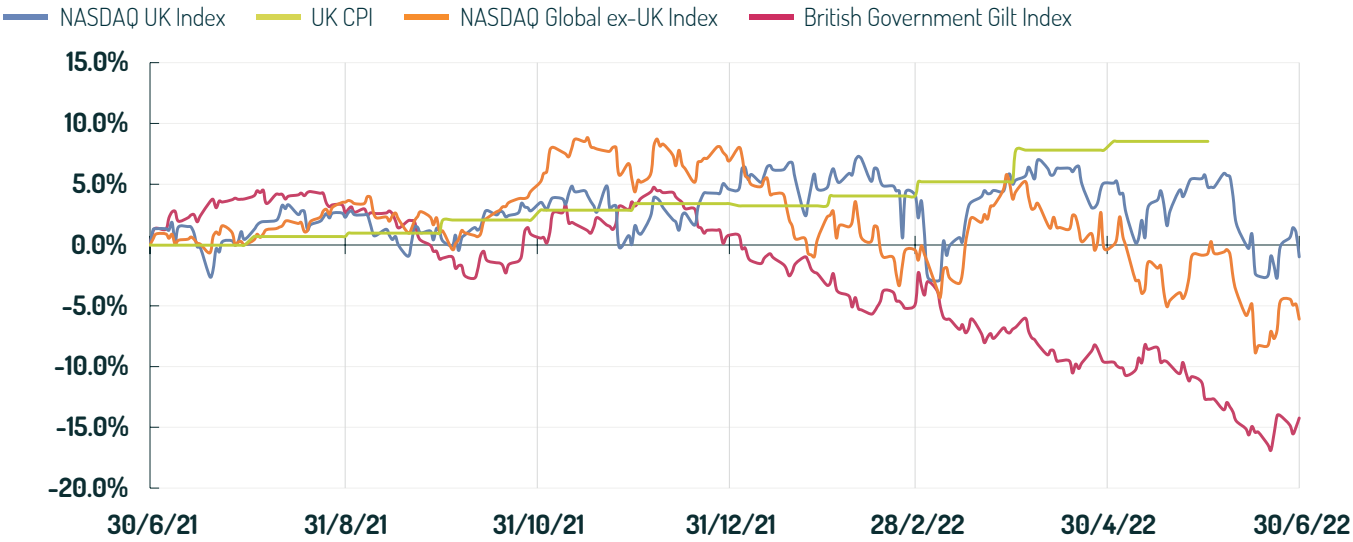
INDEX RETURNS



Source: Financial Express

Past performance is not necessarily an indicator of future performance. Returns are not guaranteed. With investment your capital is at risk.

ASSET CLASS PERFORMANCE



Sources: Castlefield, Pershing and Alpha Terminal from 30/6/21 to 30/6/22
Past performance is not necessarily an indicator of future performance. Returns are not guaranteed. With investment your capital is at risk.

cost of living were transport (up 13.8%) and food and non-alcoholic beverages (+8.6%).[3]

Main Street USA is feeling the same pain as we are in the UK. Annual inflation in the US rose in the year to May 2022 to 8.6%, beating market expectations - but not in a good way. 8.6% is the highest annual inflation figure since December 1981, when Ronald Reagan was in the White House. Last July, the equivalent figure was 5.4%[4]. Energy prices rose by 34.6% year on year and food costs increased by over 10% for a basket of goods.[5]

America's love affair with firearms, especially assault rifles, continues to baffle many around the world while wreaking havoc at home. Going Postal is not going away.

Over in Euroland, the European Union continues to wrestle with its response to the Russian invasion of Ukraine – an approach that might best be described as nuanced. Its citizens face the same challenges as the rest of us in the developed world, with inflation across the bloc standing at 8.6%.[6]

China's ill-thought-out commitment to "Zero Covid" prompted more lockdowns in Q2; an approach seemingly much in favour with the authoritarian government of Xi Jinping but probably much less popular amongst Chinese citizens. In late June, two counties in Anhui province -- Sixian and Lingbi -- announced lockdowns with more than 1.7 million residents only permitted to leave their homes if they are getting tested.[7] These lockdowns have slowed down the Chinese economy, thereby contributing to supply chain issues and the global economic malaise.

As we said three months ago, the climate for investing backdrop remains fraught with difficulties. To exacerbate matters, fixed income markets are not providing the sanctuary for which they are known. After more than a decade of laxity in the aftermath of the GFC, central banks in developed markets have sought to control inflation by raising interest rates to something approaching long-term historic norms. Fortunately, we are underweight fixed income investments.

All this bad news had a detrimental effect on equity markets in Q2, with indices in the US, UK and Euro Area markets following a similar downward trajectory.

With regard to the performance of key equity indices during this tough period; the broad US market recorded a decline of 9.7% for the quarter ending June 30th 2022 and the Euro Area markets saw a decline of around 9.0%. The UK index of all shares was down 5.0% over the three-month period.

Against this backdrop, we remain committed to our bottom-up stock selection process, with ESG analysis ingrained, as we believe the companies that we own are better equipped than most to weather the present storm.

3. https://tradingeconomics.com/united-kingdom/inflation-cpi
4. https://tradingeconomics.com/united-states/inflation-cpi
5. https://tradingeconomics.com/united-states/inflation-cpi
6. https://tradingeconomics.com/euro-area/forecast
7. https://www.ndtv.com/world-news/covid-19-1-7-million-people-put-under-lockdown-in-china-amid-fresh-covid-surge-3125058

CASTLEFIELD SUPPORTS CCLA CORPORATE MENTAL HEALTH BENCHMARK UK 100

Castlefield is happy to support the CCLA Corporate Mental Health Benchmark UK 100, a tool designed to improve transparency, disclosure and reporting on workplace mental health by providing a clear framework for businesses.

The benchmark aims to:

- Ensure that corporate efforts are directed towards activities that positively support the mental health of people at work
- Encourage greater disclosure on workplace mental health and enhance understanding of the business risks and opportunities presented by mental health among private sector employees
- Equip investors and other stakeholders with a tool for assessing the effectiveness of corporate management of business risks and opportunities associated with mental health across their global operations
- Define key expectations on workplace mental health, providing investors with an accessible way to understand and evaluate corporate practices

Source: CCLA Corporate Mental Health Benchmark UK 100, 2022

It is now widely accepted that promoting positive mental health in the workplace contributes to a happier, healthier, and more productive working culture. On top of the valuable benefit to employee wellbeing, there is also a business case for tackling mental health in the workplace; enhanced productivity; increased innovation; reduced absence due to sickness; and lower staff turnover among such benefits.[1] A recent study by Deloitte revealed that every £1 invested in workplace mental health interventions yielded an average return of £5.30, due to a reduction in costs associated with absences and staff turnover.[2] Clearly, poor mental health incurs significant human and economic costs- it is a problem which demands the immediate attention of the business landscape.

> According to CCLA, only one third of UK companies recognise the link between 'Good Work' principles and mental health.[2]

According to CCLA, only one third of UK companies recognise the link between 'Good Work' principles and mental health.[2] Good work is comprised of conditions which contribute to a happier and healthier lifestyle, such as; flexible working; fair pay and financial wellbeing; diversity, equality and inclusion (DEI); recruitment and career progression; and anti-bullying. Not only do Good Work principles facilitate greater job satisfaction, employee retention, progression, and engagement, but they can also greatly benefit employee mental health and prevent new problems from arising due to major triggers like stress.

As part of CCLA's investor coalition, we will actively engage with investee companies to encourage them to increase disclosure and reporting on workforce mental health, and to deliver improvements which seek to support the mental and physical wellbeing of employees.

CCLA's Global Investor Statement can be found here:
https://www.ccla.co.uk/documents/global-investor-statement-workplace-mental-health/download?inline

Written by Ellie Walley

1. CCLA Corporate Mental Health Benchmark: UK 100, 2022
2. https://www.ccla.co.uk/mental-health

COLLABORATIVE ENGAGEMENT: FAIRR

Investor Letter to the Food and Agriculture Organisation (FAO) of the United Nations

Castlefield joined a group of 33 investors,[1] led by the FAIRR Initiative,[2] to send a letter to the FAO calling for specific targets on the food industry's methane emissions as part of a clear path to align with the Paris Agreement.

> Greenhouse gas emissions from the food production industry are estimated to represent close to 35% of global emissions.

Greenhouse gas emissions from the food production industry are estimated to represent close to 35% of global emissions, and by themselves would be enough to overshoot the 1.5°C target within 30 to 45 years, even if all other emissions were reduced.[3] A number of other risks were highlighted in the letter, including deforestation and biodiversity loss, malnutrition, and antimicrobial resistance. The impact of the food and agriculture sector on our planet cannot be underestimated and a concerted global effort will be required if we are to make the necessary changes with the efficacy and speed required to reduce the industry's environmental impact.

We believe that the UN FAO is best placed to lead countries working towards a 1.5°C target with a comprehensive roadmap which will reduce emissions while also contributing to global health standards and the livelihoods of those working in the industry.

At the end of June, the investor coalition received a response from Director-General Qu Dongyu at the UN FAO acknowledging our proposal and requesting a meeting to discuss it further. He also pointed to UN developments such as the Global Panel on Agriculture and Food Systems for Nutrition and several, relevant initiatives launched at the Conference of the Parties (COP26), such as the Global Methane Pledge and the Agriculture Innovation Mission for Climate.

Engagement with Kerry Group

During the quarter, we also joined a small number of FAIRR members for an engagement with Kerry Group. Ireland-based Kerry Group began as a dairy cooperative but has developed its business into a much larger group focusing on sustainable nutrition and has developed expertise in plant-based products. Another part of its business involves reformulation of products for major companies. The reformulation process helps companies to deliver great tasting products while reducing the amount of fat, sugar and salt contained within them.

> Kerry Group began as a dairy cooperative but has developed its business into a much larger group focusing on sustainable nutrition and has developed expertise in plant-based products.

Our engagement with Kerry was a part of FAIRR's ongoing Sustainable Proteins engagement project and was set up to request an update on the progress of protein diversification, Kerry's long-term ambitions to diversify its product portfolio and improve the sustainability of its supply chain, and the development of metrics to measure these.

At the meeting, Kerry was able to provide a number of useful updates. We were glad to hear that Kerry intends to complete its first quantitative TCFD-aligned analysis by next year and will increase the disclosures made to investors, including information about Scope 3 emissions. The company is also continuing to develop its plant-based capabilities, recognising protein diversification as a strategic priority.

Overall, while there are still areas to improve, we believe that Kerry is committed to increasing its sustainability credentials and is continuing to make progress towards improving the environmental impact of its own operations, products, and its supply chain.

1. https://www.fairr.org/article/investor-letter-fao-roadmap/
2. Farm Animal Investment Risk and Reward Initiative
3. https://www.newscientist.com/article/2259164-food-production-alone-is-set-to-push-earth-past-1-5c-of-warming/

GREENWASH CONTROVERSY

The market for sustainable investment funds has grown rapidly and with it the threat of greenwashing, which is the over-statement or misrepresentation of so-called green credentials by both companies and asset managers in order to enhance a corporate message or attract investment.

As Thoughtful Investors of many years, we are pleased to see the growth in the amount of money being allocated to 'sustainable' or 'ESG' funds as the world wakes up to the real impact of investing. After many years of being regarded as a niche approach, sustainable investing has become mainstream – even fashionable. Although the market cooled in the first half of 2022, investors across the world put $142.5 billion into sustainable funds in the fourth quarter of 2021, up 12% on the previous quarter.

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This took worldwide assets under management which are defined as sustainable up to $2.7 trillion, spread across more than 5,900 funds – of which three quarters are in Europe.[1]

Morningstar notes, as we have, the widespread rebranding of conventional funds into sustainable offerings as asset managers respond to the latest market trend and the flow of investor funds.[2] Anyone spending a couple of hours looking at the media will see that consumer-facing companies are also very keen to present themselves in a 'green' light.

However, as an investor and a consumer, it pays to be generally sceptical and alive to greenwashing. This approach usually involves an element of misdirection; oil companies telling us how much they invest in windfarms is a classic example, but fashion brands, banks and online retailers are all prone to this activity and a quick web search brings up lots of examples. The textbook definition of greenwashing is;

> **"Greenwashing is the over-representation or misrepresentation - either intentionally or unintentionally - of the qualifications and credibility of an investment portfolio that promotes itself as green, sustainable, responsible or ESG."[1]**
>
> 1. CFA Institute Certificate in ESG Investing Curriculum (textbook) V3 page 539

Of course, companies are legally allowed to drill for oil and gas, it's that they do this but still give the impression through their advertising that they are really a green energy company, suggesting the possibility that consumers and investors might be deceived.

How is this allowed to happen? A key problem is the lack of agreed terminology and standards as well as the proliferation of ESG ratings agencies, whose output has varying degrees of utility. This creates a lot of scope for interpretation of what is 'green'. This means that, often, companies self-report to their own standards which feeds through into the information that funds collect and report. This is especially a problem with passive funds which follow an index; clients sign up for a 'green' or 'sustainable' option only to find themselves invested in funds with exposure to mining businesses, but which are somehow still in an index.

> The problem of greenwashing has reached a point where index providers, regulators, international bodies and even law enforcement are looking at it

The problem of greenwashing has reached a point where index providers, regulators, international bodies and even law enforcement are looking at it and are raising the possibility of a new mis-selling scandal somewhere down the line.

In May this year, Germany police raided the offices of the fund manager DWS as part of an investigation into greenwashing, prompted by the brave actions of Desiree Fixler, a former executive turned whistle-blower. Several commentators noted that the DWS case is

1. https://www.ft.com/content/ae78c05a-0481-4774-8f9b-d3f02e4f2c6f
2. https://www.ft.com/content/ae78c05a-0481-4774-8f9b-d3f02e4f2c6f

> Our screening process excludes whole sectors where greenwashing is potentially more prevalent- the aforementioned oil and gas, mining and minerals.

unlikely to be a one-off.[3]

The IMF suggests that savers and investors should look harder at how their money is deployed and that proper regulatory oversight and verification mechanisms are essential to avoid greenwashing.

So, how does Castlefield tackle greenwashing? We believe our own experience in the sector and in-house research process puts us in good stead. As institutional investors, it's about getting close to the companies we own as well as fully understanding the funds we invest in. It helps that our screening process excludes whole sectors where greenwashing is potentially more prevalent- the aforementioned oil and gas, mining and minerals. With the companies and collective vehicles which come through our exclusionary filters and ESG analysis and make it into our portfolios, we maintain a continuous dialogue – usually meeting at least twice a year – so that greenwashing concerns hardly ever arise.

As participants in the market for ESG funds, we are concerned that some funds which make questionable claims about the ESG credentials of the products are purely attaching a green badge to a fund, attracting money to boost a firm's assets under management and perhaps justifying higher fund charges due to its advertised approach.

Unfortunately, there are bad actors in most markets, especially one where many participants are keen to do something good. All we can do here is stick to our investment disciplines and reiterate our commitment to Thoughtful Investment.

Written by David Gorman

3. https://www.ft.com/content/1094d5da-70bf-40b5-98f4-725d50620a5a

CASE STUDY: INVINITY ENERGY SYSTEMS

Positive Theme: Sustainable Infrastructure

Invinity Energy Systems is a recent addition to our Castlefield Sustainable UK Smaller Companies Fund. Its vanadium flow battery technology supports large-scale renewable energy projects and are a safer, more sustainable and more economical alternative to lithium-based battery systems.[1] Battery storage systems enable energy from renewable energy sources, such as solar and wind, to be stored and then released when customers need power most and are crucial as we look to reduce our reliance on non-renewable power.

While lithium-ion batteries are currently the most widespread commercial solution in use, developing technology to improve battery storage capabilities aims to increase the amount of time that energy can be stored and the lifespan of the battery itself. The vanadium-based solution developed by Invinity, and currently in use at the Energy Superhub Oxford (ESO) project,[2] has a much longer lifespan (over 25 years), and a discharge cycle of anywhere between 2-12 hours. Invinity's batteries also circumvent the fire risk associated with lithium batteries. We believe that longer-duration energy storage options will be imperative in meeting net zero targets across the world, by helping to manage the variation in the generation of energy from renewable sources.

Since investing in the business in late 2021, we have spoken to management on several occasions and also conducted a site visit to the company's facilities in Bathgate. Our well-timed visit allowed us to view a shipment of completed battery units waiting to be sent to a site and involved a full tour. Members of staff from a number of business areas walked us through their roles and showed us how the chemistry of the battery functioned in practice.

> When investing in a new business, we spend a great deal of time getting comfortable with the financials as well as a wide range of environmental, social and governance factors.

When investing in a new business, we spend a great deal of time getting comfortable with the financials as well as a wide range of environmental, social and governance factors. However, we accept that there is no such thing as a perfect business. When investing in smaller companies, there are differences in the governance standards placed upon these businesses compared to their larger peers. We consider it our responsibility as investors to engage with management where we see opportunities for improvement and see it as a positive sign when the company is open to hearing and considering our suggestions.

At the start of the year, we sent out a letter to all our holdings to explain how our stance on topics such as climate change and director overboarding (when directors hold an excessive number of directorships) would inform our voting at AGMs in the year ahead. Invinity responded with interest and requested a meeting to discuss our voting guidelines in more detail. As well as providing some feedback on their current level of corporate governance reporting, we also used the meeting to talk about Invinity's carbon reduction targets and the emissions that are avoided as a result of Invinity's energy storage systems.

Written by Amelia Overd

1. https://invinity.com/vanadium-flow-batteries/
2. https://energysuperhuboxford.org/about-the-project/

DIRECTOR OVERBOARDING

Many directors now limit the number of external board roles that they hold at any one time to ensure that they have sufficient time to carry out their existing duties in full. We are supportive of this and have had an 'overboarding' clause in our voting guidelines for several years which would lead us to vote against the appointment of directors whose existing time commitments are significant. Placing a limit on the number of directorships also brings greater diversity to corporate boardrooms as it forces recruiters to look beyond the typical candidates when searching for new directors.

> We updated our voting policy for 2022 with a scoring system for director appointments.

We updated our voting policy for 2022 with a scoring system for director appointments. Scoring systems are not an uncommon practice and, although we recognise they may not pick up the nuance of individual roles, it gives us a baseline to work from and engage. The full table of points per role can be seen in the Corporate Governance and Voting Guidelines on our website (https://www.castlefield.com/media/2883/corporate-governance-voting-guidelines.pdf) but, as an example, an individual would see three points allocated for an executive role at a listed business and one point for a Non-executive Director role. We outlined this change to all our investee companies earlier this year, stating that we will vote against directors that score above our threshold point measure of four, unless the company provides information to demonstrate that the individual has ample capacity to carry out all existing duties (e.g. by providing an estimate of the number of days per year spent on each role).

As we entered the busy voting season with this updated policy in tow, and since our Q1 Stewardship Report, we've seen many instances of overboarded directors at AGM resolutions by our new definition. Several fall just over our threshold with a scores of 5 whilst we also observed some extreme examples with scores of 7 to 10. In all cases though, we are always keen to understand the company's perspective on matters before coming to a decision and aim to engage before we vote.

So, what have we learnt from these conversations, and where have we changed our voting as a result?

Firstly, willingness to engage is the first tick in the box for us. We don't have all the answers, but we want our view heard as part of building a long and constructive relationship on behalf of our investors.

Next, and one of the main, and perhaps obvious, takeaways is that valuable and in demand people can often be very busy. Therefore, we will support certain individuals who have been fundamental to the progress or turnaround of a company, despite them having multiple roles, where we feel that pushing for change immediately isn't always in the best interest of stakeholders. In some cases, we're also given notice of roles potentially changing or being relinquished soon, which we're happy to take into account when voting.

Finally, and perhaps most importantly, such conversations have provided us with a better understanding and more nuance in relation to time spent on specific roles and how companies themselves view this problem which, as with all the above, helps inform better our decision.

> Our overboarding policy is in place so that we can be confident that all directors have sufficient time to dedicate to their roles.

Although holding our viewpoint on overboarding can sometimes feel like an uphill battle, we must continue raising it. Clearly, we want to be supportive of high-calibre, experienced directors. However, our overboarding policy is in place so that we can be confident that all directors have sufficient time to dedicate to their roles and have adequate flexibility within their working schedule to accommodate ad hoc and urgent meetings that may need to be called. In addition, it is crucial we continue to see smooth and orderly succession planning at board level and having a small pool of individuals on multiple boards can hamper this progression. Lastly, we must not forget the potential impact on mental wellbeing of overboarding. There are only so many hours in the day and, while it is of course down to the individual to weigh up their personal capacity and priorities, as investors, we have seen instances of executives becoming burnt-out, which not only impacts the company which they govern but, above all, comes at great personal cost to the individual.

Written by David Elton

VOTING ACTIVITY: Q2 2022

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.

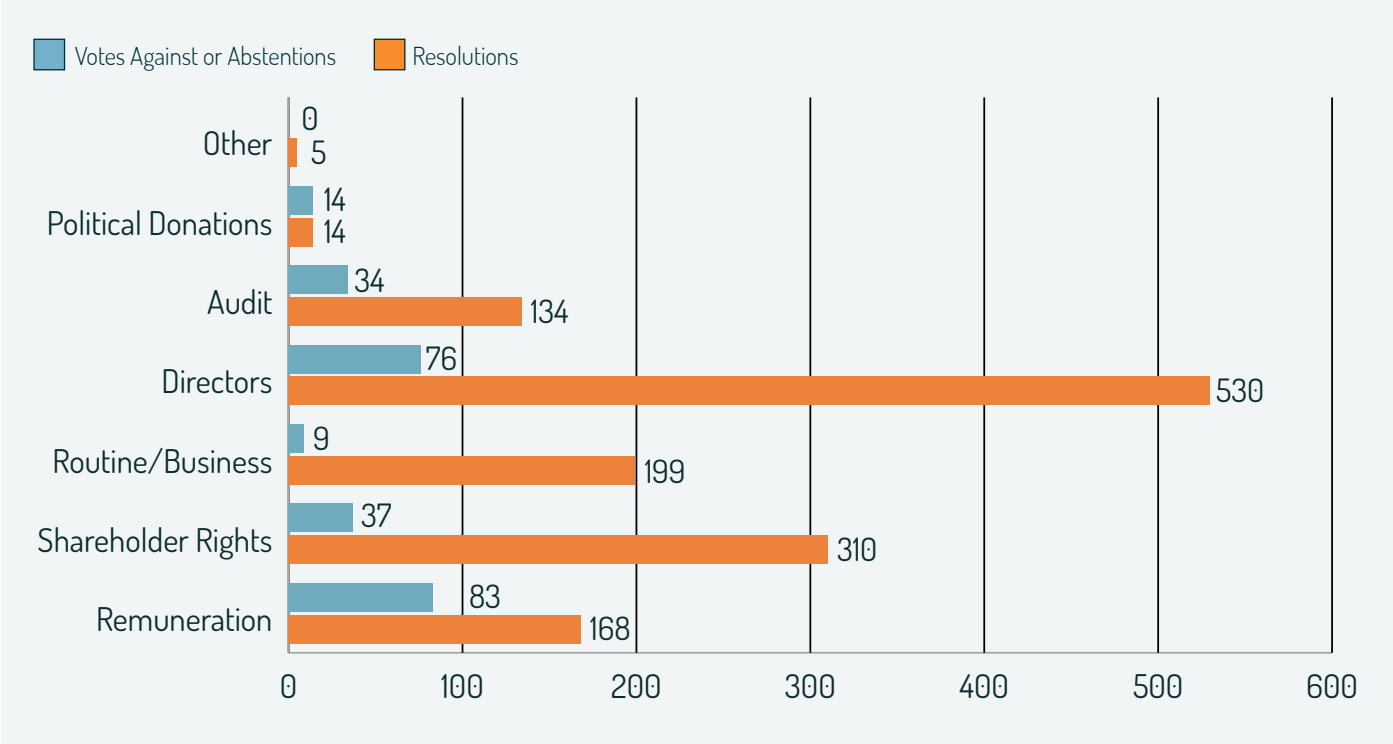
RESOLUTIONS

Number of resolutions where votes were cast For	1107	81.4%
Number of resolutions where votes were cast Against	229	16.8%
Number of resolutions where votes were Abstained	24	1.8%

During the quarter, we voted at 85 meetings hosted by our investee companies, with a total of 1360 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:



Category Spotlight: Other

We have seen an increase in companies submitting climate-related resolutions for shareholders to vote on at their Annual General Meetings. In the last quarter, we've seen four investee companies proposing climate-related resolutions – European-listed businesses Carrefour and Amundi and UK-listed M&G and Aviva.

We are supporting of companies providing increased levels of transparency about their plans to increase the environmental credentials of their businesses and allowing shareholders to vote on the quality of their emission reduction targets. Companies that create accountability for these targets demonstrate that they are thinking about their climate impact at the highest levels of governance.

This also comes alongside an increase in shareholder resolutions on climate-related topics. In the US for example, climate-related shareholder proposals have topped the list of a record number of shareholder proposals filed by the end of March this year, at 21%.[1]

As climate concerns continue to rise up corporate and investor agendas, we expect to see these trends continue.

1. https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/climate-resolutions-top-unprecedented-number-of-shareholder-proposals-in-2022-69641049

2022 PRIORITY ENGAGEMENT TOPICS: 6 MONTH SUMMARY

For 2022, our Stewardship Committee set three priority engagement topics spanning across environmental, social and governance (ESG) considerations. While we engage with companies on ESG topics routinely with our companies, we felt that by identifying a few key questions to ask all our investee businesses, we could gain a clearer picture of how our chosen subjects are being addressed by the wider market and improve the comparability of the information.

In the first half of the year, we have spoken to over 50 investee companies about these topics.

Environmental

The first of our questions relates to environmental targets and asking our investee companies about their plans to reach net zero. How our portfolios impact climate change continues to be a core area of focus for us, and this engagement exercise will help us continue to map companies based on the targets they have set for themselves.

Having assessed all companies in our portfolios last year on the basis of publicly available climate-related targets, we've been encouraged to speak with a number of companies which are in the process of setting their net zero targets. We have also spoken to several companies which have achieved carbon neutral or net zero for their own operations. Mapping the carbon emissions of company supply chains remains a challenge for many businesses but overall, we believe that company leadership teams recognise the importance of making progress towards environmental sustainability.

Social

Our question relating to social issues covers recruitment and retention in light of a very tight labour market. As inflation and worker shortages in particular industries result in an increase in wage levels, we want to ensure that companies we invest in are doing what they can to ensure they remain an attractive employer and supporting employees with the cost of living.

Comments from companies so far suggest that there have been challenges in recruitment across a wide range of industries, but we are pleased to see many of the companies we invest in for our clients being able to maintain high levels of employee retention.

Governance

A key governance area we wanted to speak to our companies about was tax. Given the government support that the private sector received throughout the pandemic, it is important that business plays its part in supporting recovery efforts and that includes fair payment of taxes. There is likely to be increased public scrutiny of listed firms, particularly those that received significant government support, and their approach to tax in the years ahead. We encourage all of our investee companies to publish a fair tax policy.

Tax can be a very complex topic, but we believe that our questions about fair tax provide an indication of investor sentiment that companies can take on board. Our findings so far have confirmed, as may be expected, that the majority of the companies do not make use of complicated or aggressive tax schemes and are aware of the significant potential reputational damage that may come from seeking to pay a reduced amount of tax.

A RETHINK ON DEFENCE STOCKS AND ESG? WHY WE DON'T THINK SO.

Recent media coverage of the ESG and sustainable investment industry may have you believe that the Russian invasion of Ukraine has prompted a re-evaluation of whether the defence industry should be considered for potential inclusion for sustainable funds. The main arguments and questions posed stem from a possible change in public perception of the defence industry now that their services and products are seen to be helping Ukraine defend itself from its aggressor.

> We remain firm in our belief that companies involved in the manufacture and distribution of weapons and weapons systems are not consistent with a sustainable investment objective.

We have seen a small number of asset managers removing or adjusting their exclusionary categories for the sector, but we remain sceptical about the rationale for these changes. We remain firm in our belief that companies involved in the manufacture and distribution of weapons and weapons systems are not consistent with a sustainable investment objective.

Along with the rest of the world, we are horrified by the conflict in Ukraine and the devastation it has caused. And while we are appalled by the apparent war crimes conducted by the Russian forces, the practical nature of investing in listed businesses means that even if we felt it was appropriate to invest in companies

directly involved in Ukrainian military operations, they simply do not exist in our investment universe.

Given the government contracts and necessarily private nature of the operations of companies involved in the defence sector, it is often not possible to determine where their products are going and how they are being used.

We are also long-term investors, which means seeking to hold the shares of companies for 5+ years, and that means that we are on board with the strategic direction of the business and its ambitions for the future. To invest in a company which may be directly supporting Ukraine would be short-term in nature and we do not believe there are any listed companies

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whose businesses are solely operating for this one conflict, which would mean we would also be supporting sales to other regions.

Fundamentally, we would not consider profiting from any type of warfare to be in line with the values of our clients. While we recognise there is a need and responsibility for governments to ensure they can defend their citizens, we do not believe it is our role as investors to provide financial support to these activities.

Written by Amelia Overd

PORTFOLIO FUNDS: HOLDINGS IN THE SPOTLIGHT...

Hightown Housing Association

Held in both the Sustainable Portfolio Funds, Hightown Housing Association is a charitable housing association that for over 50 years has been helping those who need care and support or who cannot afford to rent or purchase homes at the current market values. Hightown achieves this through building hundreds of new homes and providing care and supported housing services for a variety of people. The types of care Hightown provides include support for mental health, learning disabilities, young people, homeless, mother and babies and resettlement, with the team providing over 16,000 support hours each week.[1] Hightown currently manages over 7,700 homes across Hertfordshire, Bedfordshire, Buckinghamshire, and Berkshire, and employs over 1,000 staff.[2] There are over 1,000 homes either in build or in the development pipeline for the next two years, all of which vary in size and are specifically constructed to meet a wide range of family needs. These will either be rented out at social or affordable rents, rented to people with support needs, or sold as shared ownership properties. Hightown seeks to build on average around 350 homes annually.

There are a few elements of Hightown that we like. Firstly, there are the clear positive themes of sustainable infrastructure and Health and Wellbeing that align with Hightown's operations. We access Hightown through the retail charity bond programme and we like that this adds a different facet to our portfolio in the form of direct fixed income holdings. This provides further differentiation to our portfolio, alongside the regular, predictable, attractive coupon payment paid annually by Hightown. Hightown provides clear and obvious social benefits through their provision of affordable housing and care to those that require it most. Given the ageing demographic in the UK, and the combination of rising house prices along with years of stagnant real wage growth, there are clear tailwinds for this sector, and we are very pleased to help support Hightown as it carries on growing.

1. https://www.hightownha.org.uk/care-and-support/our-care-and-support-services/
2. https://www.hightownha.org.uk/about-us/

Cordiant Digital Infrastructure

Also held in both Portfolio Funds, Cordiant Digital Infrastructure launched on the specialist fund segment of the London Stock Exchange in February 2021 as the first UK investment company to provide investors with dedicated exposure to the core infrastructure of the digital economy.[3] Cordiant invests in a variety of assets including data centres, telecommunications towers, and fibre networks throughout the UK, Europe, and North America. Surging growth in data consumption and traffic is providing a tailwind for digital technology, and with that comes demand for additional capacity. Digital infrastructure assets possess numerous attractive qualities such as predictable long term cash flows, location-based barriers to entry and a limited risk of obsolescence. Cordiant's approach involves acquiring small platforms from the middle-market. These smaller assets are typically ignored by large private equity firms therefore competition for assets is not as fierce and valuations are more attractive. Once acquired, the team look to leverage their expertise and add value through asset management opportunities. Cordiant are mindful of their ESG (Environmental, Social and Governance) impact, and objectives are integrated with several UN Sustainable Development Goals. Through their investments, Cordiant seeks to reduce the carbon footprint of the digital economy by introducing renewable energy sources and greater efficiency, minimise the need for unnecessary travel through enhanced communications and connect better under-served businesses and households.

We like Cordiant for several reasons. Firstly, it taps into our positive theme of cyber and digital security through the provision of secure digital infrastructures that allow global interconnectedness. Secondly, Cordiant operates a progressive dividend policy and offers strong growth prospects through an attractive pipeline of digital assets. There are clear tailwinds for this sector, which Cordiant is in a good position to benefit from, leaving us very excited about what the future holds for them.

3. https://www.cordiantdigitaltrust.com/

Harmony Energy Income Trust

Harmony Energy Income Trust (HEIT) is a relatively recently launched UK based investment trust listed on the London Stock Exchange. We have held it in the Sustainable Portfolio Growth Fund since it floated on the market towards the end of 2021. The trust is one of the UK's leading developers, owners, and operators of utility-scale battery energy storage. Due to variable weather conditions, one of the main problems we face whilst using renewable energy is that supply is not always consistent from place to place. Battery energy storage systems are the solution to unlocking the full potential of intermittent renewable energy. The more connected we are to the use of renewable energy, the more important the ability to manage its intermittent supply becomes.

As well as battery storage projects, Harmony also facilitates wind and solar energy storage projects. The team works closely with a variety of stakeholders such as landowners, planning authorities and energy distribution network operators to develop renewable energy sites which deliver benefits for all.[4] Harmony works with many well-known brands, one of which is US motor company Tesla, and more recently, commercial bank NatWest on their initial portfolio of battery storage projects. The core of the investment trust is rooted in sustainability, fitting in to our positive theme of Resource Efficiency. Battery storage is a key enabler for renewable energy generation, and we believe that this is vital in the pursuit of a net zero carbon future. Max Slade, the Commercial Director of Harmony Energy Advisors Limited recently released a statement where he outlined the trust's new focus on bringing battery energy storage projects online in scale to help further facilitate the transition to net zero.[5]

4. https://www.harmonyenergyplanning.co.uk/
5. https://www.harmonyenergy.co.uk/general/launch-of-harmony-energy-income-trust-plc/

Learning Technologies Group

AIM-listed Learning Technologies Group PLC (LTG) is held in our Sustainable UK Opportunities Fund since May 2022. Headquartered in London and employing over 5,000 people worldwide, the company has been named as one of Europe's fastest-growing sustainable companies.[6] The company is a market leader in the fast-growing markets of e-learning and people management software. The e-learning sector has undoubtedly thrived over pandemic-induced lockdowns, with the closure of educational establishments contributing to the rapid rise in online and distanced learning enrolments. The most popular software LTG has established is called Moodle™ (www.moodle.com), with students of all ages familiar with it. It is an open-source e-learning platform widely used by schools and universities in the UK, US and across the world. Moodle™ was created to help educators design online courses in a simple and collaborative manner, with anyone being able to make improvements to the programme and share it with the community.

Additionally, we have also seen the talent management market expand, which refers to the range of software applications that aid companies in the optimising of recruitment, performance management, training, and remuneration of employees. Some of the software LTG offers helps organisations to upskill workforces and this links with our positive theme of Education. The primary focus of the business is to encourage the use of online learning to improve the efficiency and accessibility of educational and professional processes. Customers are generally mid-sized to larger corporations, places of learning and government bodies, with the majority of sales deriving from the US. The nature of the business encourages the transition to a paperless society, which reduces an individual's impact on forestry, reduces waste and energy usage, and helps in the quest for net zero carbon emissions.

6. https://www.ltgplc.com/news/learning-technologies-group-named-as-one-of-europes-fastest-growing-companies/#:~:text=LTG%2C%20which%20is%20headquartered%20in,CAGR)%20between%202017%20and%202020.

SPOTLIGHT ON THE PORTFOLIO FUNDS - OUTLOOK

CFP Castlefield Sustainable Portfolio Growth Fund

Markets have remained volatile over the past quarter and it seems quite likely that this will continue in the immediate future, given the concerns over high and rising inflation and rising interest rates aren't going away anytime soon. This means investors are likely to remain quite jittery and prone to reacting to short-term data points. We see an increasing possibility that both the UK and US might experience recessions in 2023 and so we don't expect much by way of stock markets advancing into the current headwinds.

With UK inflation predicted to hit c.11% and interest rates rising steadily, we're also cautious on the prospects for bond markets. The surge in inflation in particular is a significant dampener on the attractiveness of the asset class and implies substantial capital value erosion in real terms. Taking that in tandem with our views on equity markets, it underlines the need for and benefit of diversification.

For the Sustainable Portfolio Growth Fund, that means property and especially infrastructure are areas we look upon favourably. We'll continue to maintain meaningful exposure here via the variety of existing infrastructure holdings the fund has, while monitoring the market for potential new additions. The types of infrastructure we like to invest in often have inflation-linked revenues and also offer inflation-linked dividends to investors, providing the kind of inflation protection that is highly valuable in conditions as we have at present.

CFP Castlefield Sustainable Portfolio Income Fund

The more circumspect outlook we outlined in our previous quarterly update remains the case still, with no easing of the near-term pressures. Arguably, those pressures have intensified in the very short-term as, for example, the Bank of England's inflation projections continue to move higher. Consumers and business alike will be increasingly squeezed by rising costs and the raising of interest rates to try and check inflation may be a necessary action but is one that further tightens the financial system and increases borrowing costs.

The current strains do in part reflect the difficulty in normalising economic conditions as we leave the worst of the pandemic behind. The sudden economic shock required massive intervention by policy makers, they delivered it and it ought to be no surprise that governments and Central Bankers were in no hurry to start withdrawing support from the system. A rise in inflation is unsurprising given the huge sums of stimulus thrown at the system. At some point, the global system will settle down and there may even be some small signs of that appearing now. A return to normal economic cycles would be a welcome relief after the distortion and toll caused by the pandemic.

In the short-term then, our stance hasn't changed and we're expecting headwinds to persist. In the meantime, we're maintaining our healthy level of exposure to infrastructure and the above-average levels of income these holdings generate, often with inflation protection built into their dividend distributions.

FUND COMMENTARY

CFP CASTLEFIELD SUSTAINABLE PORTFOLIO GROWTH FUND

Key Information

Fund Size:	£59.04m
Investment Association Sector	Mixed Investment 40-85% shares
Launch Date:	1st February 2018
Managers:	Simon Holman
Number of Holdings:	30- 50
Payment Dates:	Quarterly

Cumulative Performance (%)

A - CFP Castlefield Sustainable Portfolio Growth G [17.09%]
B - IA Mixed Investment 40-85% Shares [13.62%]

Source: 01/02/2018 - 30/06/2022. Data from FE fundinfo 2022

	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs	Since Launch
Fund	-3.29	-5.97	-11.91	-8.13	10.41	17.09
Sector	-4.53	-7.40	-10.81	-7.16	8.77	13.62

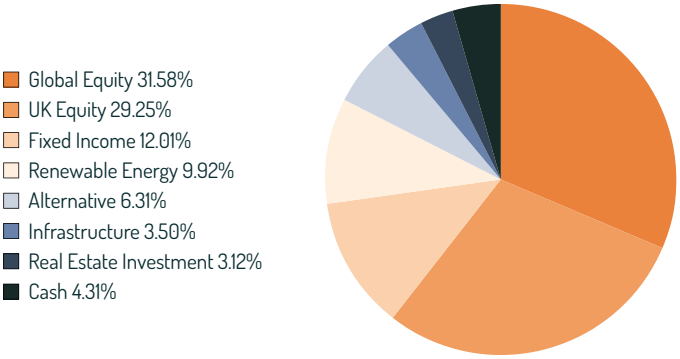
Discrete Performance (%)

	2022 YTD	2021	2020	2019	2018	2017
Fund	-11.91	13.63	3.91	17.86	-	-
Sector	-10.81	10.94	5.32	15.78	-	-

Source: FE fundinfo 2022

Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Sector Allocation



Top 10 Holdings

		%
1	CASTLEFIELD SUSTAINABLE UK SMALLER COM FUND	11.09
2	CASTLEFIELD SUSTAINABLE UK OPPORTUNITIES FUND	9.70
3	CASTLEFIELD B.E.S.T SUSTAINABLE INCOME FUND	8.46
4	FIRST SENTIER INVEST STEWART WORLDWIDE SUSTAINABILITY FD	8.25
5	CASTLEFIELD SUSTAINABLE EUROPEAN FUND	8.02
6	FP WHEB ASSET MANAGEMENT SUSTAINABILITY FUNDS SICAV	7.20
7	CASTLEFIELD REAL RETURN FUND	5.15
8	LIONTRUST SUSTAINABLE FUTURE ICVC LION TRUST FUT GLB GROWTH	4.35
9	RATHBONE ETHICAL BOND FUND	3.93
10	SARASIN RESPONSIBLE GLOBAL EQUITY FUND	3.76

Fund Commentary

The CFP Castlefield Sustainable Portfolio Growth Fund returned -6.0% (General share class) in the second quarter of 2022, versus -7.4% for its peers in the Investment Association's Mixed Investment 40% - 85% Equities sector.

2022 continued in its torrid vein in the second quarter. The war in Ukraine continued to grind on and the uncertainty caused by the rise in inflation continued to weigh on investors' minds. Interest rates are being raised steadily in response and even the European Central Bank has talked about two planned rate hikes to come in 2022. The spectre of stagflation, or high inflation with no growth, is one that that has never been far away from many people's thinking and seen in that light it's no surprise how markets have reacted. Consumers can feel the squeeze on their wallets for everyday items while businesses are having to try and cover rising costs as best they can, yet inevitably demand must slow.

Our infrastructure exposure dominated the leading contributions to performance, with Gresham House Energy Storage Fund the stand-out holding by way of its contribution to returns of +0.30%. Two other energy storage holdings were in the top four positive contributors, with the Harmony Energy Income Trust reprising its positive Q122 role and adding +0.08% towards fund performance, while the Gore Street Energy Storage Fund added +0.07%. With markets weaker in Q2, our global equity fund holdings were all materially down on the quarter and dragged returns back, as did our two growth-focused UK equity positions. Unsurprisingly, bond holdings weren't immune given the backdrop of rising inflation and interest rates, and both the Rathbone and Royal London Ethical Bond funds featured in the top ten positions costing performance.

Two main changes took place within the fund during the quarter, as we chose to exit our entire positions in the Sarasin Food & Agriculture Opportunities and Edentree Responsible and Sustainable Sterling Bond funds. In both cases, we reviewed the asset class exposure and were comfortable that we have sufficient diversification that we could concentrate our exposure in our preferred holdings. The Sarasin fund has offered an interesting thematic style of exposure, albeit one that has perhaps suffered more from the pandemic than our other, non-thematic funds. Taking into account our forecast for its future prospects, we felt the time was right to sell out of the fund and re-distribute the proceeds across our other global equity funds.

Source: Castlefield, Factset

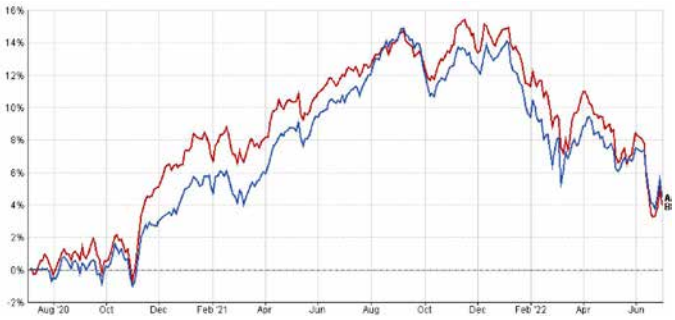
FUND COMMENTARY

CFP CASTLEFIELD SUSTAINABLE PORTFOLIO INCOME FUND

Key Information

Fund Size:	£13.63m
Investment Association Sector	Mixed Investment 20-60% shares
Launch Date:	6th July 2020
Managers:	Simon Holman
Number of Holdings:	30- 50
Payment Dates:	Quarterly

Cumulative Performance (%)



- A - CFP Castlefield Sustainable Portfolio Income G TR in GB [4.49%]
- B - IA Mixed Investment 20-60% Shares TR in GB [3.98%]

Source: 06/07/2020 - 30/06/2022. Data from FE fundinfo 2022

	1 Mth	3Mths	6 Mths	1 Yr	3 Yrs	Since Launch
Fund	-2.83	-4.01	-8.19	-5.47	-	4.49
Sector	-4.11	-6.30	-9.44	-7.09	-	3.98

Discrete Performance (%)

	2022 YTD	2021	2020	2019	2018	2017
Fund	-8.19	8.71	-	-	-	-
Sector	-9.44	7.20	-	-	-	-

Source: FE fundinfo 2022

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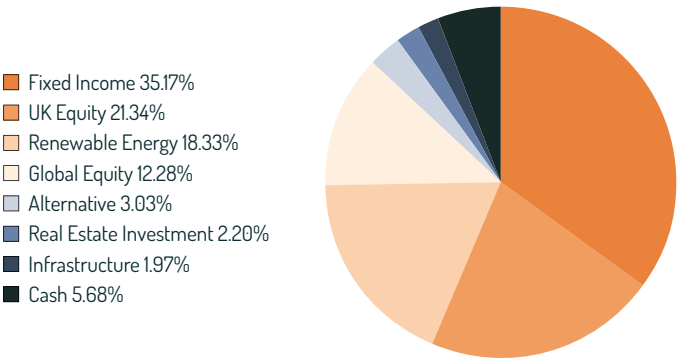
Sector Allocation



Top 10 Holdings

		%
1	CASTLEFIELD B.E.S.T SUSTAINABLE INCOME FUND	17.53
2	RATHBONE ETHICAL BOND FUND INSTITUTIONAL INC	11.13
3	EDENTREE RESPONSIBLE AND SUSTAINABLE STERLING BOND FUND	8.36
4	ROYAL LONDON BOND FUNDS II ICVC ETHICAL BOND FUND	7.36
5	FIRST SENTIER INVEST STEWART WORLDWIDE SUSTAINABILITY FD	3.63
6	GRESHAM HOUSE ENERGY STORAGE FUND PLC	3.32
7	GORE STREET ENERGY STORAGE FUND PLC	3.18
8	JLEN ENVIRONMENTAL ASSETS GROUP LTD SICAV GBP	3.06
9	GREENCOAT UK WIND PLC	3.04
10	GREENCOAT RENEWABLES PLC	2.88

Fund Commentary

The CFP Castlefield Sustainable Portfolio Income Fund returned -4.0% in the second quarter of 2022, versus -6.3% for its peers in the Investment Association's Mixed Investment 20% - 60% Equities sector.

The second quarter was another tough one for investors. After initially recouping some of the falls of the first quarter, headlines and data on inflation gave rise to renewed volatility and markets falling back again. The continued war in Ukraine is also feeding into the current challenges as, quite apart from the human cost and suffering caused by the Russian invasion, the supply of food and energy from the region has shrunk significantly. Higher energy prices have been an issue for months but now the prospect of food shortages and rising food prices is affecting the global economy.

Against that backdrop, the three bond funds we hold all gave up ground in the face of that combination of rising interest rates and inflation, while our global equity fund holdings also gave up meaningful ground. In both our own selections and the styles of the external managers we employ here, we seek high quality, financially resilient businesses which have the ability to grow in the long-term. They're currently out of favour as short-term upswings in fossil fuel and other commodity companies rule the roost, however we prefer to stick to our knitting.

Good performance was seen as a result of the continued positive trading environment for the renewable energy infrastructure investments we hold. Of particular note in the second quarter, Gresham House Energy Storage and John Laing Environmental Assets added +0.39% and +0.27% contributions respectively towards performance. These were supplemented by Gore Street Energy Storage (+0.19%) and Greencoat Renewables (+0.18%), as the sector registered the continued benefits of higher power prices. Notwithstanding the squeeze consumers and businesses alike are facing, it's preferable for generators of renewable energy to benefit than for fossil fuel companies to do so, given their respective contributions to tackling climate change.

After the busy first quarter for dealing, the second quarter saw no changes made as we allowed the rebalanced portfolio to settle down. The current projection is for a comfortable cushion over the 3% dividend yield we target for the fund, which we'll be monitoring and seeking to maintain.

Source: Castlefield, Factset

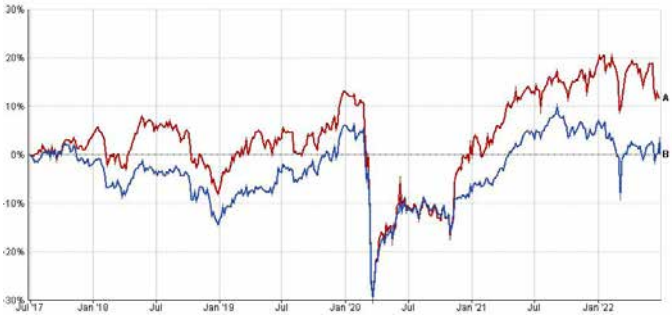
FUND COMMENTARY

CFP CASTLEFIELD B.E.S.T SUSTAINABLE INCOME FUND

Key Information

Fund Size:	£21.10m
Sector:	IA UK Equity Income
Launch Date:	2nd May 2006
Managers:	Mark Elliott
Number of Holdings:	30- 50
Payment Dates:	Quarterly

Cumulative Performance (%)



A - IA UK Equity Income [11.77%]
B - CFP Castlefield B.E.S.T Sustainable Income General [0.23%]

Source: 30/06/2017 - 30/06/2022. Data from FE 2022

	1 Mth	3Mths	6 Mths	1 Yr	3 Yrs	5 Yrs
Fund	-1.94	-1.26	-5.71	-3.21	4.06	0.23
Sector	-6.17	-5.51	-5.56	-0.27	8.12	11.77

Discrete Performance (%)

	2022 YTD	2021	2020	2019	2018	2017
Fund	-5.71	15.08	-12.38	21.67	-11.93	3.91
Sector	-5.56	18.39	-10.73	20.07	-10.54	11.32

Source: FE fundinfo 2022

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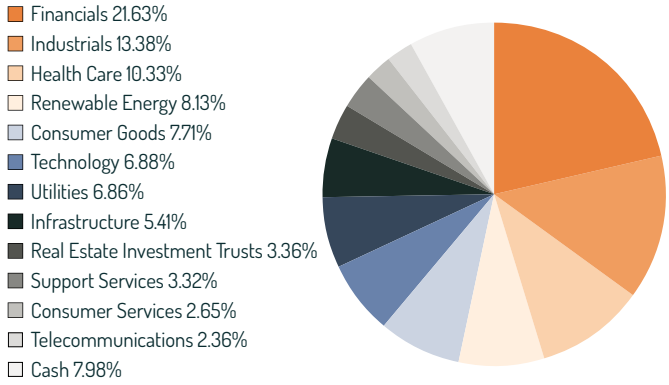
Sector Allocation



Top 10 Holdings

		%
1	GLAXOSMITHKLINE PLC	5.55
2	NATIONAL GRID PLC	5.41
3	UNILEVER PLC	5.30
4	ASTRAZENECA PLC	4.78
5	CITY OF LONDON INV	4.28
6	EMIS GROUP PLC	4.01
7	PHOENIX GROUP PLC	3.38
8	ASSURA PLC	3.36
9	BEGBIES TRAYNOR GROUP PLC	3.32
10	RENEWABLES INFRASTRUCTURE GROUP	3.32

Fund Commentary

The Castlefield B.E.S.T Sustainable Income Fund returned -1.26% for the quarter, compared to the IA UK Equity income sector, which fell by -5.51%.

UK equities had largely recovered by the end of March following the shock invasion of Ukraine by Russia earlier in Q1. Q2 therefore commenced on a cautious footing, but with markets at a similar level to where they were in mid-February. The conflict now appears to be entering a protracted phase and supply chain effects are spreading out globally following the immediate impact of the conflict. Investor focus has therefore shifted to inflation, the policy response of central banks and the emerging threat of recession. This saw more defensive, income-generating businesses fare better in Q2, an area of the market where the fund is well positioned. This market sentiment helped our holdings in the pharmaceutical sector, AstraZeneca and GlaxoSmithKline, both of which rose during the period. AstraZeneca reported quarterly figures reflecting strong sales of Covid-related treatments and crucially, an increase in sales of cancer therapies where treatments globally have been affected by the pandemic over the past couple of years. Glaxo is due to spin off its consumer healthcare division later this summer. The resulting standalone business, Haleon, will allow investors to choose whether to invest in the core Glaxo drug-research business, or the consumer-facing healthcare company and the shares have continued to advance ahead of the demerger.

Elsewhere inflationary pressures that are driving central bank policy tightening saw some more cyclical manufacturing companies ease back further. This included holdings in aluminium building-products group Alumasc, electrical component manufacturer Strix and door and window insulation firm Tyman. All of these firms have reported good growth over the past few years but rely on raw materials which have seen prices rise this year. Conversely, our investments in insolvency specialist Begbies Traynor have been a notably strong performer in the quarter, up over 23% as solid trading and further bolt-on acquisitions continue to drive earnings growth.

Towards the end of the period, healthcare software stock EMIS was on the receiving end of a bid from much larger US peer United Healthcare. EMIS shares jumped over 40% on the announcement of the agreed bid. EMIS exhibits many of the features that we routinely look for in an investment opportunity, including good margins, and the ability to grow through the business cycle. We immediately reduced the holding on risk control grounds as it was a substantial position within the fund prior to the jump in the share price, although we have retained a sizeable holding as the bid proceeds. We have reinvested the proceeds into financial services group K3 Capital, which provides a range of professional services covering marketing and business transfer agency, R&D tax advice and restructuring. The group is very cash generative, paying an attractive dividend and provides a mix of pro and counter-cyclical services, which we think is increasingly important at this stage of the economic cycle.

Source: Castlefield, Factset

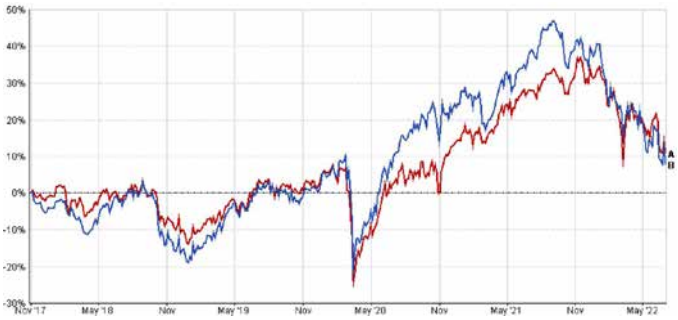
FUND COMMENTARY

CFP CASTLEFIELD SUSTAINABLE EUROPEAN FUND

Key Information

Fund Size:	£20.21m
Investment Association Sector	Europe (ex-UK)
Launch Date:	1st November 2017
Managers:	Rory Hammerson
Number of Holdings:	30- 50
Payment Dates:	Semi-annual

Cumulative Performance (%)



A - IA Europe Excluding UK [10.75%]
B - CFP Castlefield Sustainable European G [7.78%]

Source: 01/11/2017 - 30/06/2022. Data from FE fundinfo 2022

	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs	Since Launch
Fund	-8.10	-13.75	-23.5	-20.83	7.56	7.78
Sector	-8.48	-10.19	-17.15	-12.63	9.04	10.75

Discrete Performance (%)

	2022 YTD	2021	2020	2019	2018	2017
Fund	-23.50	11.85	20.42	27.37	-14.53	-
Sector	-17.15	15.76	10.28	20.33	-12.16	-

Source: FE fundinfo 2022

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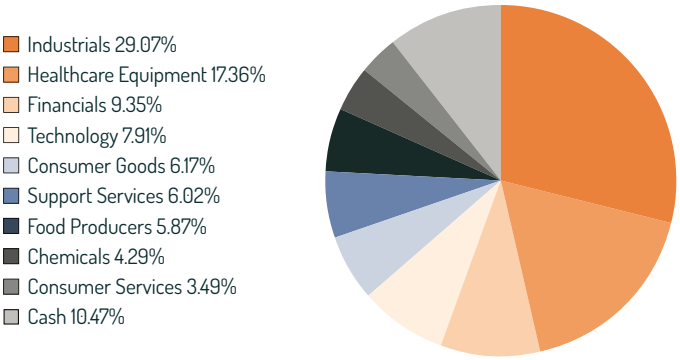
Sector Allocation



Top 10 Holdings

		%
1	TELEPERFORMANCE SE	6.02
2	SONOVA HOLDING	4.39
3	VESTAS WIND SYSTEM A/S	4.34
4	SYMRISE	4.29
5	CARREFOUR SA	4.13
6	PARTNERS GROUP	4.12
7	STRAUMANN Holdings	4.07
8	GEA GROUP	3.91
9	TECAN GROUP	3.49
10	SCOUT 24	3.49

Fund Commentary

Markets in Europe have remained volatile with the invasion of Ukraine continuing to take its toll on supply chains, geopolitics globally and regional politics. The French presidential election in April was not conclusive and it took two further weeks to re-elect Macron as the first president to win a second term since 2002. Engagement has taken a renewed focus on issues such as net zero, recruitment and retainment and tax. In times of rising inflation, we are keen to see that our companies are focusing on looking after their staff. Tax is an area where we are increasing our vigilance. Corporate profitability is still beating analyst expectations and we saw no let up in the Q1 results. There is a lot of Covid catch up still in the mix and we are now hearing a significant and consistent message in terms of rising costs. We caution a tempering of expectations in corporate profitability across Europe as margins will face some pressure in the short to medium term.

The best contributors during the quarter were Unilever, French auto supplier Valeo, and Accell Group, the Dutch bicycle manufacturer. Unilever, though going through its own challenges in terms of input cost increases, is seen as a defensive investment, and therefore has been a relative outperformer during a volatile period. A new organisational strategy has been announced with five key pillars, designed to drive future growth. A renewed focus on fast growth markets such as India, China and other emerging markets as well as more impetus in the US will be underpinned by advanced in e-commerce. French auto supplier Valeo has been a stalwart in the auto industry for a very long time. More recently as the transition to EV occurs, the investment phase has been more obvious than the profitability. EV rollout is proving challenging on many fronts as the technology progress is hampered by supply chains. Valeo has an exciting joint venture with Siemens which, although still loss making, is going to be part of the electrical revolution. Valeo has had previous joint ventures with Siemens which have been highly successful for both groups. Dutch bike manufacturer Accell Group has now been taken over by private equity players in a consortium and is being delisted. As the share price didn't move, it was a static performer in a volatile market.

Trading remained muted during the second quarter of this year with inflows invested in line with the current portfolio. As a percentage, portfolio turnover remains low single digit over all time periods reinforcing our long-term investment philosophy.

Source: Castlefield, Factset

FUND COMMENTARY

CFP CASTLEFIELD SUSTAINABLE UK OPPORTUNITIES FUND

Key Information

Fund Size:	£23.73M
Investment Association Sector	UK All Companies
Launch Date:	1st June 2007
Managers:	Mark Elliott
Number of Holdings:	30- 50
Payment Dates:	Quarterly

Cumulative Performance (%)

A - IA UK All Companies [10.89%]
B - CFP Castlefield Sustainable UK Opportunites General [9.65%]

Source: 30/06/2017 - 30/06/2022. Data from FE fundinfo 2022

	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs
Fund	-6.15	-7.86	-19.89	-16.35	-2.60	9.65
Sector	-7.28	-8.26	-12.76	-8.49	3.94	10.89

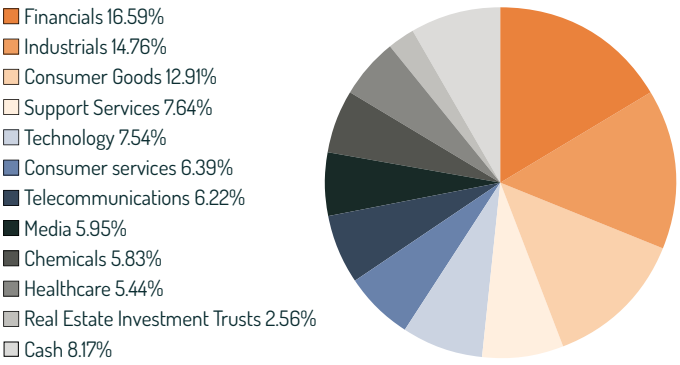
Discrete Performance (%)

	2022 YTD	2021	2020	2019	2018	2017
Fund	-19.89	19.96	-5.53	17.07	-0.80	9.79
Sector	-12.76	17.25	-6.01	22.24	-11.19	13.99

Source: FE fundinfo 2022

Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

Sector Allocation



Top 10 Holdings

		%
1	RELX	5.95
2	K3 CAPITAL GROUP	5.00
3	BEGBIES TRAYNOR GROUP PLC	4.33
4	EMIS GROUP PLC	4.30
5	EXPERIAN	4.17
6	CRODA INTERNATIONAL	4.04
7	UNILEVER PLC	3.79
8	CITY OF LONDON INV	3.61
9	DEVRO PLC	3.55
10	BT GROUP PLC	3.54

Fund Commentary

The Fund returned -7.86% for the first quarter of 2022, slightly ahead of the return for the IA UK All Companies sector of -8.26%.

The period saw a continuation of the outperformance of more cyclical "value" stocks in preference to higher margin, "growth" stocks where we have greater exposure. This came against the backdrop of the ongoing conflict in Ukraine. As the initial reverberations from the invasion subside across global investment markets, the enduring trend has been to accelerate the inflationary drivers that were already evident in the global economy. In this context, our best performing holdings were insolvency specialist Begbies Traynor, up over 23% in the period as it continued to add regional insolvency and property consultancy firms to the group, coupled with an increase in insolvency cases nationally. We also saw better performance from Unilever, the global household goods group as it reassured investors that it was able to protect margins and pass on increases in ingredient and energy costs.

The same themes saw our holdings in manufacturing groups retreat where concerns that raw material increases may prove harder to pass on came to the fore. This affected our holding in Tyman, the producer of door and window seals and fittings, which was marked lower by over 22% in the period. Part of its sales come from new-build housing activity, and concerns that rising rates would cause a slowdown in new builds added a further layer of concern.

M&A was again a feature of the portfolio and wider market during the period. Our holding in healthcare software group EMIS announced an agreed bid from US healthcare giant, United Healthcare. The blockbuster premium of over 40% to the current share price was pitched at a level to deter any potential competitor bids and so we have moved to de-risk the holding immediately. As the holdings was over 4% of the portfolio prior to the bid, we have reduced the position, effectively taking the gains from the bid now. We have reinvested into a couple of recently initiated positions, Gamma Communication and Learning Technologies (LTG). Gamma is an internet telephony specialist ad LTG provides online training courses and content, and both utilise technology to leverage their services in a similar way that EMIS did. With market sentiment fragile, we have retained a substantial proportion of the EMIS holding and will look to redeploy as opportunities arise, but in the meantime are happy to keep a defensive buffer in the portfolio.

Source: Castlefield, Factset

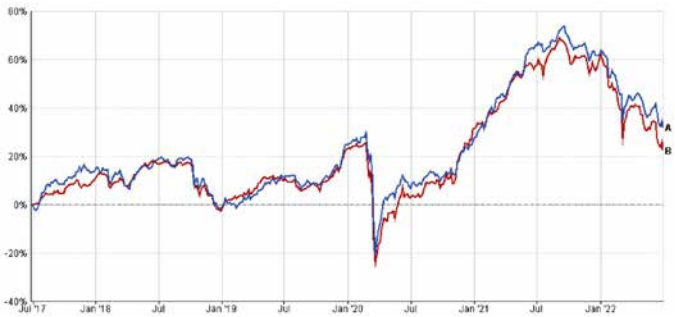
FUND COMMENTARY

CFP CASTLEFIELD SUSTAINABLE UK SMALLER COMPANIES FUND

Key Information

Fund Size:	£29.33M
Investment Association Sector	UK Smaller Companies
Launch Date:	1st June 2007
Managers:	David Elton
Number of Holdings:	30- 50
Payment Dates:	Semi-annual

Cumulative Performance (%)



- A - CFP Castlefield Sustainable UK Smaller Companies G Income [31.95%]
- B - IA UK Smaller Companies [22.45%]

Source: 30/06/2017 - 30/06/2022. Data from FE fundinfo 2022

	1 Mth	3 Mths	6 Mths	1 Yr	3 Yrs	5 Yrs
Fund	-5.19	-8.17	-19.22	-20.16	19.01	31.95
Sector	-8.76	-12.89	-24.05	-22.15	11.37	22.45

Discrete Performance (%)

	2022 YTD	2021	2020	2019	2018	2017
Fund	-19.22	27.83	2.49	25.46	-13.84	30.62
Sector	-24.05	22.92	6.48	25.34	-11.70	27.18

Source: FE fundinfo 2022

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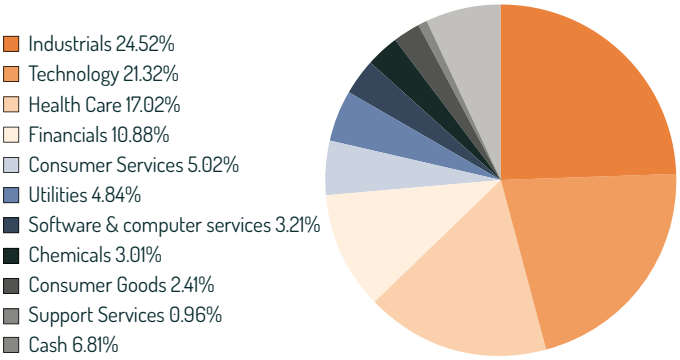
Sector Allocation



Top 10 Holdings

		%
1	TRACSIS PLC	4.05
2	THE GYM GROUP PLC	3.97
3	GRESHAM HOUSE PLC	3.52
4	MACFARLANE GROUP PLC	3.52
5	INSPIRATION HEALTHCARE GROUP PLC	3.47
6	ECKOH	3.39
7	OMG PLC	3.25
8	CALNEX SOLS.	3.21
9	PORVAIR PLC	3.19
10	MPAC GROUP PLC	3.12

Fund Commentary

Q2 saw continued volatility with macro-economic factors the main driver of market movements. Further inflationary pressures, alongside Central bank policy response of interest rates hikes, were the main culprits of the negative sentiment. Against this backdrop, we also saw the persistence of larger company share prices outperforming their smaller counterparts. The Fund, however, held up better than the wider sector, registering a total return of -8.17% compared to -12.89% of peers, over the same period.

Key contributors during the period were Oxford Metrics (+10.36%), Renewi (+9.38%), and Eckoh (+9.33%). Smart sensing software company Oxford Metrics announced the sale of its infrastructure asset management division, Yotta, for £52 million. This disposal delivers significant value for shareholders as well as bringing increased focus, and a strengthened financial platform, to execute the Group's stated five-year plan of growing revenue by 2.5x and returning the Group to 15% adjusted profit before tax margins by the end of the period. The company followed up this announcement with a solid set of interim results, despite supply chain constraints, and highlighted an unprecedented level of orders-in-hand going into the second half. Our recent purchase of waste-to-product business Renewi got off to a decent start as it released full year results ahead of market expectations and made its first major acquisition since the creation of the current Group in 2017. The acquisition was of Amsterdam based commercial waste and recycling business, Paro, which is expected to be earnings accretive from the outset and strengthens Renewi's position in secondary material production. Finally, Eckoh, the global provider of Customer Engagement Security Solutions, also released full year results during the period which showed strong performance in its US business and a return to growth in the UK. This was alongside good progress on the integration of its significant acquisition of Syntec and the expectation of material growth in the new financial year.

The largest detractors to performance were Mpac Group (-32.21%), Alumasc (-22.68%), and EKF Diagnostics (-25.18%). The sustainable building products group Alumasc fell on no specific news whilst automation ecosystems specialist Mpac and global diagnostics business EKF both moved lower despite solid updates respectively. Mpac reported that trading in the current financial year had been in line with expectations. Mpac are facing supply chain uncertainties and operational challenges, however, it is successfully implementing mitigation measures whilst the Group's prospects remain positive due to the strength of the orderbook which is significantly above the previous year, providing extensive coverage over forecast revenue. EKF released an update following the strengthening of its cash position which allows the Group to further transition into areas for future sustainable growth, away from COVID-related services.

Source: Castlefield, Factset

MEET THE TEAM

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Chartered MCSI

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Daniel Lonsdale

BSC (Hons), IMC, ACSI

Manager, Investment Management

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ADDITIONAL NOTES

With effect from 1 July 2022, the following name changes took place:

CFP Castlefield B.E.S.T Sustainable European Fund was renamed CFP Castlefield Sustainable European Fund

CFP Castlefield B.E.S.T Sustainable Portfolio Growth Fund was renamed CFP Castlefield Sustainable Portfolio Growth Fund

CFP Castlefield B.E.S.T Sustainable Portfolio Income Fund was renamed CFP Castlefield Sustainable Portfolio Income Fund

CFP Castlefield B.E.S.T Sustainable UK Opportunities Fund was renamed CFP Castlefield Sustainable UK Opportunities Fund

CFP Castlefield B.E.S.T Sustainable UK Smaller Companies Fund was renamed CFP Castlefield Sustainable UK Smaller Companies Fund

CASTLEFIELD

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