

STEWARDSHIP REPORT Q1 2024

The information in this document was accurate on the date of production. Please note on 2nd December 2024 the naming and marketing rules under the Sustainable Disclosure Requirements (SDR) came into effect and therefore there were changes made to fund names and disclosures. These changes will be reflected in the next version of this document.

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THE THOUGHTFUL INVESTOR

ADVISORY COMMITTEE SUMMARY

SUMMARY: Here, we summarise the discussion points from the External Advisory Committee meeting held in February which covered topics such as the incoming fund labelling scheme, changes to fund holdings and the use of estimated data.

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The February 2024 Advisory Committee meeting began by welcoming a new member, Gilbert Stephenson, representing the trustees of the Evangelical Fellowship of Congregational Churches where he is a trustee. It was also the last committee meeting for the Committee's Chairperson, Becky O'Connor, as her tenure comes to an end. Becky has been a thoughtful contributor to the Committee over the past six years and we have been grateful for her input.

The Committee received an update on CML Microsystems, a semiconductor business held in the Castlefield's UK Smaller Companies Fund. CML has recently acquired a US business and we have been monitoring the revenue figures of the combined entity to ensure that it remains compliant with our screening policy. The Committee was also updated on CML's governance structure, which has been an ongoing topic of engagement for Castlefield over the past year.

Next, the Committee reviewed the new holdings in, and divestments from, Castlefield's Sustainable fund range. The majority of activity has taken place in the European Fund due to the recruitment of a new fund manager, with new holdings including a number of large-cap companies such as global pharmaceutical company Sanofi, and multinational financial services company Allianz. Following this, the Committee provided us with feedback on our proposed topics for engagement in 2024.

Castlefield uses an independent data provider to assess the performance of our fund range on a range of ESG metrics and we asked the Committee for their thoughts on the use of estimated data. While the Committee were supportive of reporting on this data, the importance of transparency where relying on estimations and examining the robustness of estimation methodologies were reiterated.

The Committee also received an update on how Castlefield is planning to implement the new labelling scheme for sustainable funds (Sustainable Disclosures Requirements – SDR) which will tighten up regulation around misleading claims and reduce the risk of greenwashing."

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Finally, the meeting closed with ideas from Committee members for future thought spanning topical issues like biodiversity and Artificial Intelligence (AI).

Written by
Eleanor Walley



FOSSIL FUEL FINANCING: ESCALATING ENGAGEMENT

SUMMARY: The green transition must be facilitated by the banking sector, and to do so, ambitious action must be taken to prohibit financing for harmful activities such as the expansion of fossil fuels. In recognition of this, we recently implemented an escalation process in our Voting Guidelines for companies involved in the facilitation of new fossil fuel projects.

Here at Castlefield, we work extremely hard on behalf of our clients to invest thoughtfully, supporting companies which are contributing to an economically and socially more sustainable future. Not only do environmental, social and governance (ESG) considerations make sense for the environment, properly sustainable operations are linked with better economic performance, therefore ESG associated risks and opportunities have become central to the mission of most financial institutions.

The green transition will be impossible without the deployment of large amounts of private capital. Deloitte notes that the missing piece in the green energy transition is finance and estimates that:

to achieve net-zero greenhouse gas emissions by 2050 will likely require an annual global investment in the energy sector ranging from US\$5 trillion to more than US\$7 trillion –yet less than US\$2 trillion is currently being invested on a yearly basis.¹

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Banks have an important role in society as financial intermediators and providers of payment services and will play a key role in marshalling the funding necessary to meet the world's environmental goals.

Financial stability has been a challenge for banks over the past twenty years. Along with their customers, banks around the world suffered heavy damage, both financially and reputationally (see RBS and HBOS), during and in the aftermath of the global financial crisis. In March 2023, we saw Silicon Valley Bank and Credit Suisse get into serious trouble.

As large organisations, banks must consider not only their own ESG footprint, but also the ESG risks and opportunities they face as a lender.

Fossil Fuel Financing

In the excellent Banking on Climate Chaos report, published by Bank Track,² fossil fuel financing by the world's 60 largest banks has reached USD \$5.5 trillion in the seven years since the adoption of the Paris Agreement in December 2015. The report features 60 banks, of which 49 (82%) say they are committed to Net Zero emissions and yet, many still fund the extractive industries.

While our exposure to the banking sector is small, fossil fuel funding is nonetheless an important topic for us and for our clients. We were recently approached by a client who had published a set of climate expectations for the asset management industry, encouraging asset managers to escalate engagement against companies facilitating new fossil fuel projects.

We have since formalised an escalation process in our voting guidelines, which is further detailed overleaf.

1. [Financing the green energy transition \(deloitte.com\)](https://www.deloitte.com/uk/en/issues/sustainability/financing-the-green-energy-transition.html)

2. [BOCC 2023 vF.pdf \(bankingonclimatechaos.org\)](https://www.banktrack.org/BOCC_2023_vF.pdf)

Voting Escalation Process

On behalf of a coalition of asset owners, one of our clients approached us, outlining a set of climate expectations for the asset management industry to establish a minimum standard for action necessary to meet the goals of the Paris Agreement. We have since agreed to ramp up our engagement efforts on the facilitation of new fossil fuel funding and have updated our voting guidelines to reflect this.

We are implementing an escalation process applicable to companies operating in sectors which facilitate new fossil fuel projects (i.e. banks, insurance, or utilities). First, we will engage with the relevant companies prior to the AGM to inform them of the changes to our guidelines and obtain the relevant information. Following this, we will assess whether the company is involved in the facilitation of new fossil fuel projects. If we deem the company to be involved, our voting process is as follows:

- The first step would be to vote against the Chair of the Audit or ESG Committee
- The next escalation would be to vote against all Audit/ESG Committee members
- The final step would be to vote against the report & accounts

In any instance where we do not receive a response, we will assume that new fossil fuel projects are being facilitated by the company and will vote accordingly.

Engagement Example: Santander

Santander is held in our Sustainable European Fund under our 'Financial Resilience & Inclusion' theme, recognising the contribution the Bank makes towards increasing access to financial services, including the provision of specific products and services to those who are financially vulnerable and promoting financial education.³ While the social benefit of financial empowerment is clear, the Group is also committed to achieving net-zero carbon emissions by 2050 by prioritising five high-emitting sectors to which it has material exposure.⁴

After contacting Santander ahead of the AGM, we assessed the company's existing approach on fossil fuel financing. The company's Environmental, Social and Climate Change (ESCC) policy sets out standards for investing in, and providing financial products and services, to companies and customers engaging in sensitive activities.⁵ Prohibited funding falls under four main categories: Oil & Gas, Power Generation, Mining & Metals, and Soft Commodities (i.e. forestry plantations). The policy does demonstrate a positive direction of travel – for example, Santander prohibits financing for new upstream oil and gas clients, oil upstream greenfield projects, as well as controversial activities like arctic drilling and fracking.⁶

Although the company has begun to establish appropriate targets, and performs better than the majority of its peers in the 'Banking on Climate Chaos' report, Santander must level up its ambition before we are confident that it is ceasing to facilitate new fossil fuel projects altogether. As such, we reached the decision to vote against the non-executive director (NED) up for re-election on the Sustainability Committee and we will continue to engage with the company to keep the pressure on, using our escalation process to take necessary further action if required.

Written by David Gorman
& Barney Timson



3. <https://www.santandercib.com/press-room/santander-named-best-bank-financial-inclusion-euromoney>

4. [PowerPoint Presentation \(santander.com\). Page 17.](#)

5. [do-environmental-social-and-climate-change-risk-policy-en.pdf \(santander.com\)](#)

6. [PowerPoint Presentation \(santander.com\). Page 15.](#)

INVESTOR COALITION ON FOOD POLICY: 2024 STRATEGIC FOCUS AREAS

SUMMARY: The Investor Coalition on Food Policy acts as an effective conduit to facilitate dialogue between investors and policy makers. Here, we set out the Coalition's strategic focus areas for 2024; encouraging greater business transparency and accountability; and emergent risks and opportunities for investors.

As sustainable investors, it's important to invest in companies that positively contribute to society and the environment. This is why we're delighted to be part of the Food Foundation and Investor Coalition on Food Policy, working alongside other investors allows us to amplify our voice on important topics such as transitioning towards a healthier and more sustainable food system. By collaborating with the coalition, we aim to push for improvements in corporate reporting on health and sustainability metrics, as well as delving into topics like the transition to plant-based proteins.

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With the population forecast to grow to roughly 9.7 billion by 2050, the food system will need to accommodate a sharp increase in demand over the next few decades. This will inevitably result growing competition for land, water and energy, which is at odds with the increasing urgency to take action on climate change and reduce the damaging effects of agriculture and food production on the environment. Such concerns appear to be reflected in consumer trends, which exhibit a shift towards healthier and more sustainable diets. However, healthier and more sustainable foods – including plant-based meat and dairy replacements, as well as foods certified as Organic or Fairtrade – are often more expensive than unhealthy foods. Particularly in the context of a cost-of-living crisis, this is a real issue underpinning health inequalities, making the switch to a better diet even more challenging for lower income households.

Recently, I attended a signatory event in London where we discussed the Coalition's two strategic focus areas for 2024. The first focus area is encouraging greater business transparency and accountability, and one of the main aims of the Coalition has been engaging with policy makers on the introduction of mandatory reporting against health and sustainability metrics by food sector companies. In January, we co-signed a letter to the Secretary of State for Health and Social Care, reiterating investor support for the Food Data Transparency Partnership (FDTP) – launched by the government to improve data in the food supply chain. We hope that the Coalition's recommendations will be reflected in the ambitions of the Food Data Transparency Partnership¹, including the view that while voluntary reporting against these metrics could act as a stepping stone, mandatory reporting should be the ultimate end-goal. The second focus area will centre around emergent risks and opportunities for investors, utilising opportunities to engage with policy makers on the topic of Ultra-Processed Foods (UPFs), as well as plant-based proteins.

As investors, we would like to see an improvement in the availability, quality and comparability of data in the food supply chain. This will help us to measure and compare company performance and identify those that are on a positive trajectory towards a healthier and more sustainable product offering. Ultimately, our hopes for the future of the coalition is to work collaboratively with other investors in a push for best practice across the industry.

Written by
Eleanor Walley



1. Food Data Transparency Partnership – GOV.UK (www.gov.uk)

BRITVIC: ENGAGING ON MATERIAL SUSTAINABILITY ISSUES

SUMMARY: At the beginning of the year, we participated in Britvic's stakeholder engagement exercise, providing our views on material sustainability issues to feed into the reformulation of the company's sustainability strategy. Following this, we met with the company to discuss various issues including single-use packaging.

Britvic is a soft drinks manufacturer which is held in our UK Opportunities Fund. It's a company making good, incremental progress at improving its social and environmental impacts and its wide-reaching sustainability programme looks at material topics from calories per serve to the packaging needed for its products.

At the start of 2024, we were approached by Britvic to participate in a stakeholder engagement exercise to provide views on the sustainability issues that the company should be tackling as a priority. We were one of 10 investors contacted, even though we are far from being a top 10 shareholder in terms of the size of our holding. This shows that by asking questions regularly about social and environmental performance, on top of the financials, we become one of the investors that companies consult when they're looking to update their sustainability strategy.

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In terms of the consultation itself, we covered a range of topics. On climate change, for example, we acknowledged that Britvic has a science-based target for reducing emissions, and encouraged the company to continue to consider the impact of global warming on fruit sourcing and supply chain stability. We know that calorie and sugar content is another contentious topic for the company so we suggested that the company do more to ensure that "grab and go" products are sold in single serve portions. Single use packaging and the need to do far more to address this problem formed another key part of the discussion - Britvic has been very transparent about

the difficulties it has faced in sourcing high quality PET, and sourcing from countries with good labour standards.

We encouraged the company to join a new initiative - the 'Business Coalition for a Global Plastics Treaty'- bringing together businesses and financial institutions to tackle the plastic pollution crisis."

Following the consultation, we had a regular meeting scheduled with Britvic's investor relations team and we used the opportunity to raise the issue of plastics again. We encouraged the company to join a new initiative - the 'Business Coalition for a Global Plastics Treaty'- bringing together businesses and financial institutions to tackle the plastic pollution crisis. Their aim is to support the development of a treaty that addresses some of the obstacles that make the responsible sourcing and recycling of plastic difficult. We'll wait to see if Britvic join the coalition, and we hope that this provides clients with an understanding of how we incorporate sustainability questions on an ongoing basis in our conversations with companies.

Written by
Ita McMahon



HEALTHY MARKETS: UNILEVER PROGRESSES TOWARDS ITS HEALTH AND NUTRITION COMMITMENTS

SUMMARY: The Healthy Markets Coalition met with Unilever to discuss progress against its health and nutrition commitments and understand the strategies that will be employed to achieve these, particularly in the context of a change in leadership and strategic direction.


The Healthy Markets Coalition, coordinated by ShareAction, helps investors collectively engage with companies to promote healthier consumer diets and drive change across the food and drinks industry. One third of all deaths worldwide can be attributed to the overconsumption of certain products including alcohol, tobacco and food and drinks products – the scale of the problem is indisputable.¹

In 2021, the Healthy Markets Initiative and an alliance of investors filed a resolution at the company's Annual General Meeting (AGM) to increase disclosures around the sale of healthier products. The company engaged in constructive conversations with the Healthy Markets Coalition prior to the AGM, and a sufficient agreement was reached that led to the withdrawal of the resolution. In October 2022, Unilever publicly disclosed its targets and new disclosure practices, pledging to:

- Achieve its target of 85 percent of the 'servings' it delivers to comply with its own nutrient profiling model – the Unilever Science-based Nutrition Criteria (USNC) by 2028.
- Publish annual assessments of the healthiness of its product range on a global basis, as well as for 16 key strategic markets, in line with government-endorsed nutritional criteria and disclose this data in its annual reports.

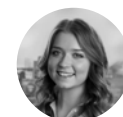
The most recent engagement took place in March this year, where Unilever presented the Coalition with an update following the second year of healthier sales disclosures. For investors, the aim was to gain a clearer understanding of how Unilever is progressing towards its commitments, particularly in the context of a change in leadership and strategic direction. Currently, 81% of the company's portfolio is compliant with the UNSC signaling good progress towards the 85% target.

Following full year results for 2023, CEO Hein Schumacher stated that sustainability efforts will be honed around Climate, Plastic, Nature and Livelihoods, leading the Coalition to question how exactly health will fit into this revised commitment. Representatives from Unilever on the call reiterated that health and nutrition will remain a key priority in line with the company's ambition to be a "World-Class Force for Good in Food". In order to help people transition to healthier diets, Unilever is committing to an annual €1.5 billion sales target by 2025 from plant-based products, as well as a doubling in the number of products that deliver positive nutrition by 2025.²

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We look forward to our continued involvement with the Healthy Markets Coalition, recognizing the pivotal role that food retailers and manufacturers play in influencing consumer health and driving access to healthier products.

Written by
Eleanor Walley



1. [ShareAction | Improving people's health](#)

2. [The world's food system needs to change | Unilever](#)

VOTING ACTIVITY: Q1 2024

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 stance. 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; they are made publicly available on our website, as is our full voting history.

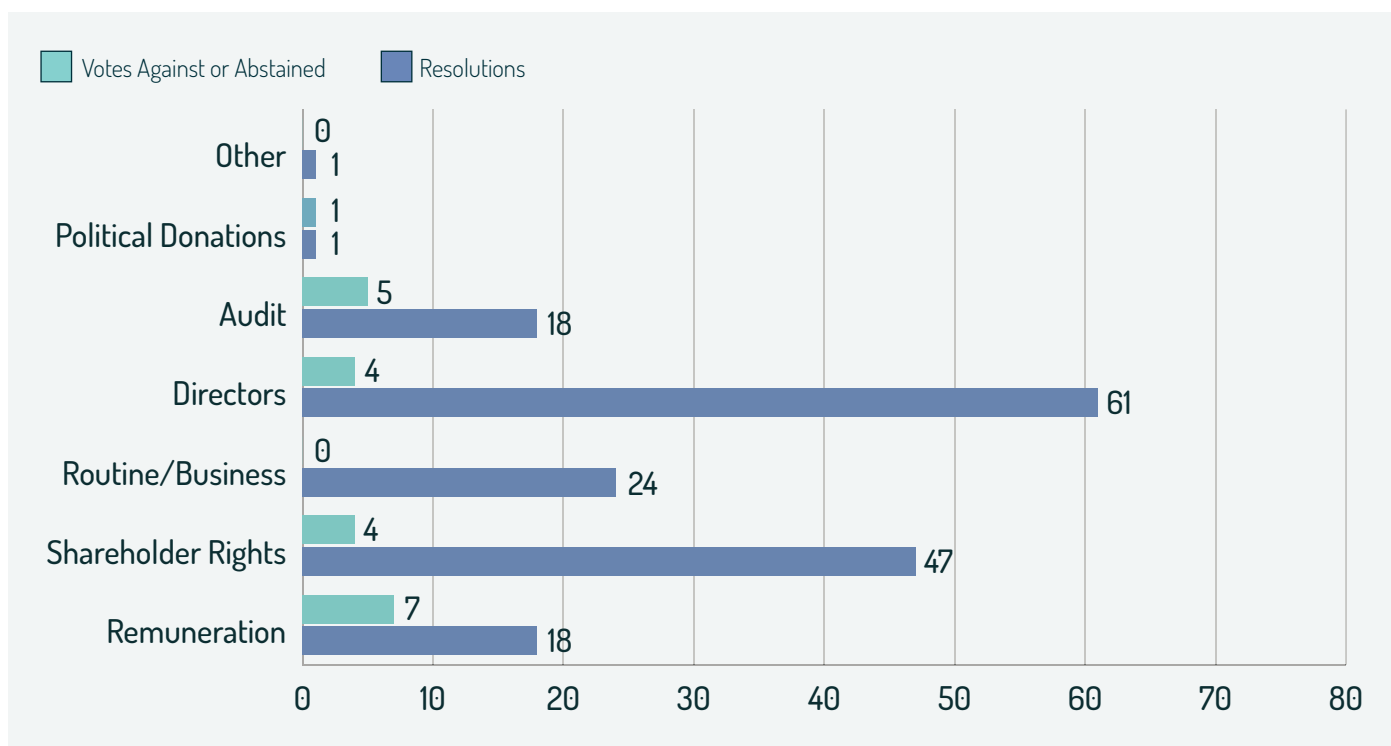
RESOLUTIONS

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| Number of resolutions where votes were cast For | 150 | 87.5% |
| Number of resolutions where votes were cast Against | 18 | 10.3% |
| Number of resolutions where votes were Abstained | 3 | 1.8% |

During the quarter, we voted at 15 meetings hosted by our investee companies, with a total of 171 resolutions.

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| 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 this 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:



MEET THE TEAM



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