

STEWARDSHIP REPORT Q2 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

CASTLEFIELD SIGNS INVESTOR STATEMENT ON ANTIMICROBIAL RESISTANCE

SUMMARY: This quarter we signed a joint investor statement on Antimicrobial Resistance (AMR). The statement, co-ordinated by Investor Action on AMR Initiative, has been timed to coincide with United Nations High Level Meeting on AMR scheduled for September 2024.

According to the World Health Organization, the causes of antibiotic resistance include over-prescribing to patients and the over-use of antibiotics in farming. As well as the human cost, estimates suggest that the economic cost of AMR could reach \$100 trillion by 2050¹.

This quarter, Castlefield signed on to a joint investor statement signaling to policy-makers around the world that AMR is an issue of significant concern to the investor community, from both a financial and humanitarian perspective. It also makes a number of requests, including:

- Establishing a global monitoring system with an independent expert panel to provide scientific assessment of AMR
- Encouraging policymakers to commit to reducing antibiotic use in farming
- Funding the development of antimicrobials
- Ensuring equitable access to novel and existing antimicrobials.

The full statement is available to read [here](#).

Written by
Ita McMahon



1. https://www.fairr.org/investor-statements/investor-action-on-amr-public-investor-statement?utm_campaign=follow-up-email-30may&utm_medium=email&utm_source=pardot

THE GYM GROUP

Written by
Eleanor Walley



Fostering a safe environment for gym users and preventing harassment

SUMMARY: We engaged with The Gym Group on the topic of gym safety, discussing the policies and procedures that are already in place to foster a safe environment for gym users. We also discussed ways in which this approach could be strengthened further – for example, supporting the ‘Ask for Angela’ initiative and improving public reporting on the topic of harassment.

The Gym Group is a national provider of low cost, 24/7, no-contract gyms which is held in our sustainable fund range, both in the Sustainable UK Opportunities Fund and the Sustainable UK Smaller Companies Fund.

After its success in bars and clubs across the country, an ‘Ask for Angela’ trial has been launched across a number of fitness and leisure centres. The initiative encourages those in an unsafe or vulnerable situation to discreetly ask staff for help by using the code word ‘Angela’. This follows a number of recent articles calling out gym harassment, and a rise in social media trends encouraging women to speak out about their experiences. It is thought that the initiative could be rolled out nationally across the fitness industry later in the year. Against this background, we felt it was important to approach The Gym Group to understand better how it promotes a safe environment for gym users.

The company stressed that there are strong policies and procedures already in place to respond to, and prevent instances of harassment. A key focus is training staff to identify the signs of harassment, and the company run face-to-face training to ensure they are well equipped to respond effectively and escalate where necessary. Staff are also made aware of ‘lower level’ issues such as staring and taking photographs which can run the risk of evolving into larger problems. For example, the company operates a policy on photos and videos to ensure that other members are not photographed. While staff are encouraged to intervene if this rule is breached, policing this may well prove challenging particularly amid the popularity of fitness influencers on social media.

As a 24/7 gym, a member of staff is not always on site and we wanted to understand how gym users can report an incident and access support in off-peak hours. We asked the company whether there are any tech-based solutions in place to manage this, for example a built-in tool on

the company’s app to report incidents effectively and provide support. Currently, a customer service line is accessible on the website which customers can use to report an incident day or night and the company explained that improvements to its app are due this year, which will include the option to contact customer service directly through the app. Further, there are emergency buttons located throughout the gym which will alert a 24/7 team immediately.


While The Gym Group’s public reporting on topics such as Diversity & Inclusion and Health & Safety is strong, we believe that this could be strengthened by reporting on its approach to identifying, responding to and preventing harassment. We asked the company whether there would be scope to improve reporting on this topic, for example (i) instances of harassment, (ii) the action that was taken, and (iii) the remedial action taken to prevent a reoccurrence. The company already uses a Health & Safety portal to collate the number internally, and the type, of incidents which we suggested could form the basis of its external reporting. We acknowledged the company’s point that disclosing this information without context felt ‘risky’ given it is not common practice in the sector and therefore could be difficult to identify where best practice lies. However, we reiterated the advantage of being on the front-foot and shaping the narrative – in fact greater transparency is likely to position the company as a leader on a topic which undeniably affects the gym experience for many women.

OUTCOME: The company is awaiting the findings from the Ask for Angela pilot campaign, and Castlefield will follow up with the company to confirm whether it intends to roll out the campaign across its gym centres.

UNICREDIT ESG ENGAGEMENT

SUMMARY: During the quarter, we engaged with UniCredit, an Italian listed, pan-European commercial bank that we hold within our CFP Castlefield Sustainable European fund. We wanted to engage with UniCredit to understand better how it is using its influence to encourage the transition towards net zero and stop facilitating the expansion of fossil fuels.

Banks are in a unique position in that they can wield a significant amount of influence by leveraging their corporate loan books and either refusing loans outright for specific sectors or placing conditions on loans that will create some form of sustainability or societal improvement. According to Banking on Climate Chaos, an annual ranking of banks and their levels of fossil fuel financing, UniCredit has much lower exposure than many of its peers. Nevertheless, we engage regularly with the company to encourage it to continue tightening its policies and further limit lending to the oil, gas and coal sectors.


 **According to Banking on Climate Chaos, an annual ranking of banks and their levels of fossil fuel financing, UniCredit has much lower exposure than many of its peers."**

In addition, as a pan-European bank, UniCredit has operations in Russia, therefore we also wanted to understand better how the situation was being managed given the imposition of country-wide sanctions, and receive an update on future plans relating to the subsidiary.

We spoke with the dedicated ESG investor relations team who began by explaining that it has set targets for high emission sectors including oil & gas, power generation, automotive, steel, and has a policy in place for the phasing out of coal by 2028. Separately, the team also indicated that targets will be in place for both shipping and real estate in due course. The team also highlighted that it has set KPIs for ESG Lending, with 13% of medium to long-term notes now environmentally, socially or sustainability

linked. Separately, 48% of Investment Products are classified as article 8 or article 9 sustainable investments. Turning to bonds, 18% of all bonds issued are classified as sustainable. For each of these categories, current performance is tracked against targets for 2024. UniCredit has also published its first Natural Capital and Biodiversity statement, highlighting its progress so far and setting out its ambitions for the future.

The conversation then turned to fossil fuel financing. UniCredit operates a client classification system, which places clients in different 'buckets' depending on the percentage of revenues generated from unconventional oil & gas, arctic oil & gas and coal. The services which a client can receive from UniCredit depend on the bucket they are placed into, with the worst offenders unable to receive even basic banking services. This approach is utilised to encourage high emitters to move through the categories and reduce their carbon footprint. The current framework will evolve over time with thresholds tightened and additional scope added.

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We also discussed the topic of facilitating fossil fuel expansion, and how the most recent Banking on Climate Chaos report had UniCredit listed as one of the largest investors into the Arctic. The team refuted those numbers arguing that they could not reconcile many of the figures published by NGOs and that often deals were over-stated. We



argued that in these situations, being more transparent and publishing the data themselves would help to resolve future issues, which was a point they took on board.

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Finally, we touched upon the topic of Russia, where through its subsidiaries, UniCredit does have some operations. The overarching strategy is to manage down the assets as quickly as possible, however, due to the sanctions placed upon Russia, any potential sale requires approval from both the Kremlin and the ECB, which makes things far more complicated. There are still 3100 employees working in Russia, and from a social and employee wellbeing perspective, rather than totally cut off contact, they remain in touch. As interest rates have risen,

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and currencies have fluctuated, Russian operations have become more profitable, however it is worth noting that these are more technical reasons, and not an active strategic decision taken by management. Separately, despite deposits still being paid in, the loan book is shrinking, indicating that operations are winding down.

OUTCOME: Overall we believe our call with UniCredit was encouraging, and we are pleased to see that a large pan-European bank is open to engagement across a variety of ESG topics. We do see room for improvement in certain areas, however, simply taking the time to listen to shareholder concerns is a positive sign. We will continue to monitor and engage.

Written by
Barney Timson



SITE VISITS

Written by
David Gorman



SUMMARY: We have mentioned in previous reports how much we value and enjoy company site visits. Here, we provide an insight into two recent site visits at Oxford Metrics Group and AB Dynamics – both held in our CFP Sustainable UK Smaller Companies Fund

Site visits provide us with a great opportunity to learn more about the companies we own and get involved in formal and informal engagement with management teams as well as with other investors.

Oxford Metrics Group

In April, I took the train to Oxford to attend a Capital Markets Day (an open day for investors) organised by Oxford Metrics PLC, whose shares we have owned in our CFP Castlefield Sustainable UK Smaller Companies Fund for several years. Oxford Metrics is a world leader in high precision movement analysis, or motion capture. Its Vicon brand supplies a range of software and hardware, such as cameras, sensors and markerless motion capture, which can be used in life sciences, entertainment, engineering and virtual reality. Over 10,000 active customers include Red Bull, Imperial College London, Dreamscape Immersive, Industrial Light & Magic, NASA, Jaguar Land Rover and Johnson & Johnson. About a third of the company's revenue is derived from Life Sciences and the company meets our theme of Health and Wellbeing.

At the event, attendees saw lots of impressive technology in action and I had the chance to put on virtual reality headset and take part in an immersive group exercise – a first for me.

The senior management team has changed over the last year, with a new CEO (albeit a long-serving employee) in Imogen Moorhouse and, as of July 1st 2024, a new CFO – Zoe Fox. Therefore, one of the benefits of the day was to talk to both incoming directors as well as to bid a fond farewell to the outgoing CFO, David Deacon, who helped build Oxford Metrics into what it is today. Last financial year, the company reported record sales and profits and it is in a great position to make further progress.

AB Dynamics

In May, David Elton travelled to Wiltshire to visit AB Dynamics, another company we hold in our UK Smaller Companies Fund. AB Dynamics is a global leader in automotive testing and verification, helping to contribute towards safer and more efficient vehicles. It is a market leader in the testing of advanced driver assistance and autonomous driving systems. The company conducts both lab and track testing and customers include all the top vehicle manufacturers as well as Euro NCAP labs and government test authorities. They moved into a new facility a couple of years ago and it was our first chance to meet management in their new surroundings.



Dave Gorman visiting Oxford Metrics PLC



Oxford Metrics' Vicon brand supplies a range of software and hardware, such as cameras, sensors and markerless motion capture

ONGOING ESG ENGAGEMENT WITH UNILEVER

Written by
Ita McMahon



SUMMARY: This quarter we continued our ongoing engagement with the multinational consumer goods company, Unilever, discussing three key topics: operations in Russia, historic allegations of human rights abuses, and net-zero.

Unilever has been a leader in sustainability for the past 20 years, adopting a progressive approach to a range of issues including palm oil, packaging and transparency on human rights. That said, no company is perfect and we've been in regular contact with the firm over the past year on three key topics: Russia, historic allegations of human rights abuses, and net zero.

On Russia, we first engaged with the company soon after the invasion into Ukraine. Unilever confirmed that it would continue to operate there, selling food and hygiene products. The company employs 3,000 people in the country and prior to the invasion, it accounted for around 2% of Unilever's global revenue. From the outset, Unilever has denounced Russian aggression in Ukraine and has taken steps to isolate the subsidiary by stopping imports to and exports from Russia, as well as stemming all capital flows. Importantly, Unilever is operating under UK

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sanctions law and therefore has no contact with its Russian business. We have been checking in with Unilever periodically and reiterating our view that Unilever's continued presence in Russia is controversial and risks reputational damage.

Unilever's view is that continuing operations within strict parameters is the “least worst” option, and preferable to closing the business and risking state appropriation. It has also been unsuccessful in finding a buyer that would both safeguard staff and avoid the Russian state potentially gaining further benefit. In effect, it is stuck with the status quo.

On human rights we have been checking periodically with the company regarding historical allegations of gender-based violence on tea plantations in Kenya that were owned by Unilever at the time of the alleged transgressions. The new plantation owners, in conjunction with the Kenyan authorities, have been investigating the allegations and have now reported on their findings. Even though Unilever is no longer involved in these sites, our view is that they should take an active interest in the report's recommended improvements, as there are likely to be lessons that could be applied to other parts of Unilever's agricultural supply chain. When we asked for an update on the situation in June, we received a short, high-level response lacking in detail. This is disappointing and we will be following up with the investor relations team to ask for more information.

Finally, on net zero, we have recently contacted the company regarding its carbon targets. This is in light of national press coverage suggesting that Unilever is moving away from the ambitious commitments it had previously set for itself on achieving net zero. In a written response Unilever was keen to defend its record. To be fair to the company, some of the perceived row back seems to be due to differing definitions of net zero. In addition, Unilever's updated Climate Transition Action Plan includes new Scope 3 goals (for 2030), which have been approved by the Science Based Targets initiative (SBTi). SBTi-accredited targets are seen

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as the gold standard of carbon management. In addition, we are pleased that Unilever has reiterated that its priority remains reducing emissions in absolute terms this decade – this is the kind of urgency that we need more companies to adopt.

VOTING ACTIVITY: Q2 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.

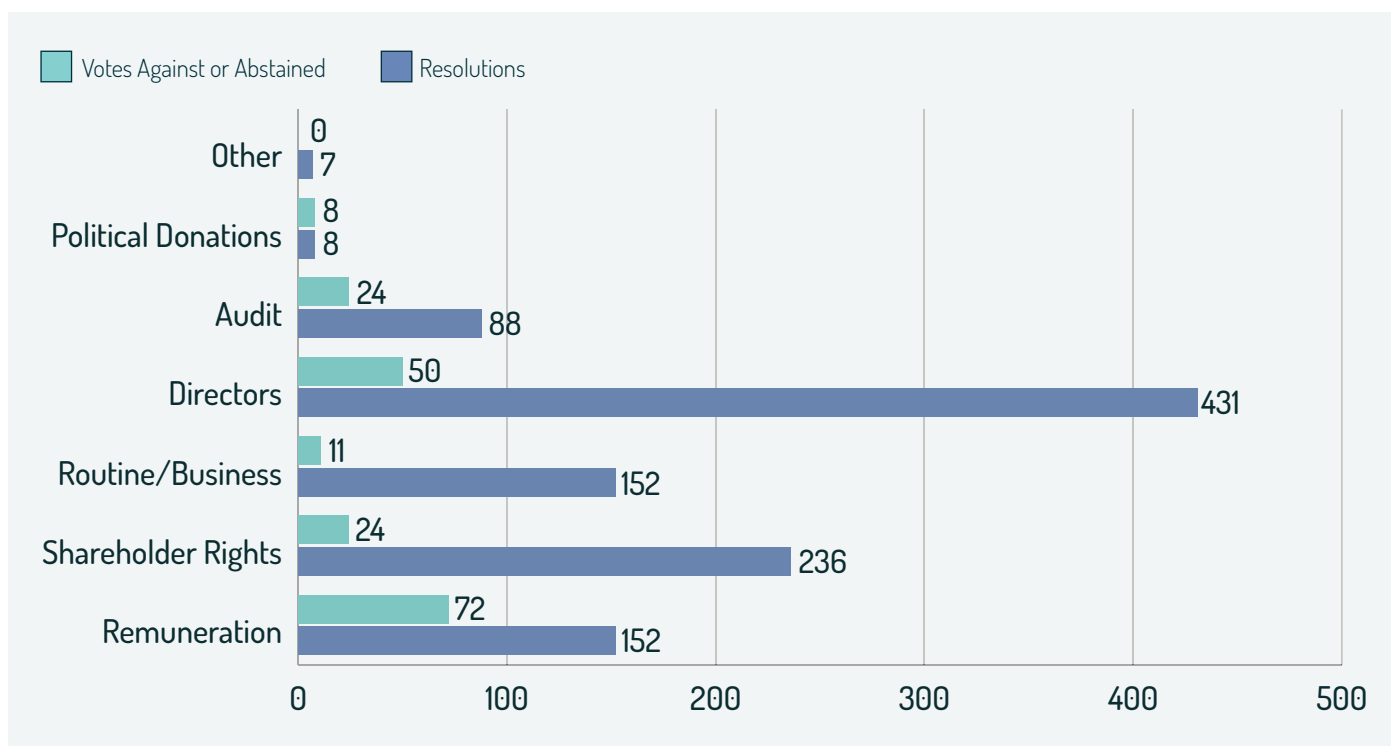
RESOLUTIONS

Number of resolutions where votes were cast For	885	82.4%
Number of resolutions where votes were cast Against	175	16.3%
Number of resolutions where votes were Abstained	14	1.3%

During the quarter, we voted at 63 meetings hosted by our investee companies, with a total of 1074 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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Assistant Investment Analyst



Callum Wells
Chartered FCSI, Chartered
Wealth Manager
Investment Manager



David Elton
BSc (Hons), IMC,
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Eleanor Walley
BSc (Hons)
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James Buckley
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