

STEWARDSHIP REPORT Q1 2025



THE THOUGHTFUL INVESTOR

EXECUTIVE SUMMARY

Our stewardship highlights this quarter include:

Animal Welfare:

We spoke to Premier Inn owner, Whitbread, about the animal welfare policies in its supply chain, and the improvements the company has made in the past year.



Unicredit and lending:

We met with the Investor Relations team to understand how the company is reducing its lending to high carbon sectors and to learn more about its environmental and social lending. This informed our voting at the company's AGM.

Cairn Homes:

We met with the sustainability team at the Irish housebuilder and received an overview on the company's commitment to building homes to high environmental standards. We also requested more reporting in future on waste, water and addressing supply chain risks like modern slavery.



The Renewable Infrastructure Group (TRIG):

We engaged with the board of this renewable energy infrastructure trust after they announced a proposed revision to the fee structure with the underlying managers. We immediately sought to engage with the Group, as we felt that the proposed arrangements were not in the interests of shareholders.

NCC Group:

Ahead of the AGM, we contacted the board of Manchester-based cyber security company NCC Group to discuss the topic of remuneration.



WHITBREAD: ENGAGING WHITBREAD ON ANIMAL WELFARE

Written by
Ffion Spencer



SUMMARY: Animal welfare remains a priority for us and our clients, despite our limited exposure to the food industry. We recently engaged Whitbread, a company in our UK Opportunities fund known for brands like Premier Inn and Beefeater, on its performance in the 2023 Business Benchmark on Farm Animal Welfare (BBFAW).¹

As signatories to the Business Benchmark on Farm Animal Welfare (BBFAW), we regard ethical animal practices as both the right course of action and a crucial tool in reducing regulatory and reputational risks, thereby supporting long-term value creation for our clients. We noted that Whitbread's performance in the 2023 BBFAW benchmark was poorer than in previous years and reached out to discuss the reasons behind this and the recommendations made for them.

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A key recommendation for Whitbread was to align with the Better Chicken Commitment (BCC) for broiler chickens. During the call, we learnt that Whitbread has made progress by monitoring its chicken supply against BCC criteria, with 30% of its poultry now sourced from farms that meet these standards. However, the company highlighted the challenges it faces in sourcing to these criteria, which hinder the implementation of targets to increase this percentage. The retail sector currently dominates demand for these higher welfare birds, and supply is further constrained by issues such as avian influenza. This is a clear example of a company striving to do more but facing external limitations.

We were encouraged by Whitbread's appointment of a dedicated Procurement Manager for Agriculture, who oversees animal welfare in the company's supply chain. This hire brings significant expertise and has already made notable improvements, including more robust auditing practices with independent third-party verification and changes to the

poultry supply chain. During our engagement, we were pleased to learn that Whitbread has moved up a tier in the 2024 BBFAW benchmark.

Additionally, the Procurement Manager is involved with the Free Farrowing Initiative, which researches and promotes best practices for sows; this is linked to another recommendation made by the benchmark's authors. Whitbread noted this as an area of uncertainty and emphasised the need for greater information on best practice for housing sows. The company has set a target for 20% of its pork to come from farrowing-free conditions by the end of 2025, demonstrating its commitment to improving welfare in this area despite the need for more clear best-practice guidance.

In our view, Whitbread's reporting does not fully reflect its progress and we have encouraged the team to publish more detailed information in this area. We also suggested that the company align its animal welfare policies for its operations in Germany with those in the UK, a possibility Whitbread has acknowledged.

Outcome: We are encouraged by Whitbread's progress since the 2023 benchmark. Improvements in procurement, supplier auditing, and animal welfare policies have already yielded tangible results, including the company's improved standing in the 2024 BBFAW benchmark. This progress demonstrates Whitbread's commitment to enhancing its animal welfare practices and underscores the importance of ongoing dialogue on these critical issues.

1. [BBFAW | Benchmark](#)

UNICREDIT: HIGH AND LOW CARBON LENDING

Written by
Ita McMahon



SUMMARY: We met with the Investor Relations team at Unicredit ahead of the company's Annual General Meeting (AGM). The aim was to better understand the extent of their fossil fuel lending and to receive a progress report on their plans to reduce lending to high carbon sectors. The meeting informed how we voted at the AGM.

We do not invest in companies specialising in fossil fuel extraction. These companies are excluded from our funds. However, we recognise that we have a small number of banks and insurance companies in our funds that aid new fossil fuel extraction by providing financing or insurance to the fossil fuel industry. We have committed to engaging with these companies ahead of their AGM each year. Our aim is to use our influence as shareholders to vote against certain resolutions as a means of signifying our dissatisfaction where a company has supported new fossil fuel projects in the previous year.

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It's important to acknowledge that Unicredit's investor relations team is responsive to our requests for meetings and further information on social and environmental topics. In this call, they invited one of their colleagues, a carbon specialist, to join and answer our questions. We were also pleased to see increased transparency in Unicredit's carbon reporting this year. For the first time they have provided information on the extent of lending to specific high-carbon sectors and have provided estimates on the associated financed emissions. Another positive is that over the past few years the bank has set a number of sector-level decarbonisation targets for its lending portfolio. These are some of the topics that we covered in our engagement call.

It is clear that oil and gas financing is not a substantial part of the bank's lending portfolio (€4.7bn vs €30.6bn for commercial real estate, for example). In addition, the bank has lowered its financed emissions for the oil and gas sector well below its targeted reduction goal. The targets themselves are aligned to the International Energy Agency's decarbonisation pathway, so they are based on a credible external source. On thermal coal, Unicredit already has reasonably stringent policies in place. For example, it provides only limited services to coal developers and to those companies without a phase-out plan in place.

In addition, we talked through Unicredit's environmental and social lending, which now accounts for 15% of new loans issued in the reporting year. Finally, we raised the subject of its ranking in a World Benchmarking Alliance review of financial service. Our view is that the company scores lower than it should, and we asked Unicredit to investigate.

Outcome: As a result of our meeting, we took the decision to abstain on the company's Annual Report and Accounts. It is clear that the company has taken a thoughtful and well-planned approach to reducing its financed emissions. We were pleased with the increased transparency in its reporting. Nevertheless, the company could not confirm if it had financed new fossil fuel projects in the past 12 months so we took the decision to abstain on the Report and Accounts.

CAIRN



Written by
Ffion Spencer



SUMMARY: In March, we engaged with Cairn Homes, an Irish housebuilder in the European Fund, to discuss its exemplary environmental and social reporting. The company's detailed approach, featuring clear metrics, case studies, and Science Based Targets initiative (SBTi) goals, sets a high standard.

Cairn Homes stands out in the housebuilding sector for its strong environmental and social performance. The company's comprehensive approach includes transparent metrics, Science Based Targets initiative (SBTi) approved targets, and case studies across environmental, social, and transparency and governance (E.S.T) topics.

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Typically, our engagements with investee companies focus on areas where we wish to see improvements. However, Cairn's dedication to these topics was a refreshing change. Its efforts go beyond mere box-ticking; E.S.T is deeply ingrained in its corporate culture and operations. As a result, our discussion was more about learning from a company that sets a high bar for others, rather than advocating for changes.

One notable example of Cairn's commitment is the integration of E.S.T performance indicators into executive remuneration. Linking executive pay to metrics like health and safety ensures senior employees prioritise these issues. This is something we consider in our voting policy, and we welcome Cairn's proactive approach. The company has also implemented voluntary biodiversity net gain targets and takes climate-related risks into account when designing new sites – a forward-thinking approach to mitigating the impact of its operations.

Cairn shared its challenges in attracting female employees, particularly in the traditionally male-dominated construction sector. The company is actively working to improve gender diversity through initiatives such as work experience opportunities for school-aged girls, mentorship schemes, leadership programmes, and the creation of the "Women in Cairn Network." While progress is being made, Cairn acknowledges the need for further efforts and remains committed to breaking down the barriers for female employment in its sector.

Although Cairn is not legally required to have a modern slavery statement, we encouraged the company to publish one given the vulnerabilities within its sector. Cairn is already aware of these risks and is implementing due diligence measures for its supply chain, beginning with a focus on the most at-risk suppliers. We will monitor this closely to see if Cairn acts on this request.

Finally, the company confirmed that it would begin publishing water data and waste targets in its 2025 report, a development we fully support and look forward to seeing in future disclosures.

Outcome: We were impressed by Cairn Homes' leadership in E.S.T reporting and practices. We look forward to seeing greater transparency in its 2025 report, particularly regarding water and waste targets, and encourage the company to take action on publishing a modern slavery statement.

ENGAGING WITH TRIG ON PROPOSED CHANGES TO FEE STRUCTURES

Written by
Callum Wells



SUMMARY: Earlier this year, the board of The Renewables Infrastructure Group (TRIG) – an investment vehicle focused on European renewable energy infrastructure – announced a proposed revision to the fee structure that the trust operates. We immediately sought to engage with the Group, as we felt that the proposed arrangements were not in the interests of shareholders.

Very recent history has seen the London-listed alternative investment company sector suffer an unusually disappointing investment outturn. The sector has undoubtedly fallen out of favour with many classes of investor, for various reasons. This has manifested as steep discounts (the difference between the market price and the Net Asset Value (NAV) – the value the company themselves assert the assets are worth) emerging. To be clear, we continue to see a valuable place for these assets in client portfolios and are happy to take advantage of these discounts.

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In order to try to combat these discounts and to demonstrate alignment with investors, the managers of these trusts have taken to revising their fee structures. One common alteration has been to charge a management fee based on a combination of both market price and NAV. In effect, this delivers a pay cut to the underlying manager so long as these discounts persist. As a business, we support this change of direction. In the case of TRIG, this welcome change was mooted alongside a package of other changes that we felt were altogether less shareholder friendly.

The proposed revisions included a transaction fee, payable to the manager for acquiring, disposing of, and refinancing assets within the portfolio. This was the more opaque part of the proposal, with the fee only payable under certain conditions. The most controversial element was a fee payable in the event the trust was taken over, set at 3% of the value achieved in excess of NAV or market price. Given the magnitude of the discount the trust was trading at, a takeover at NAV (i.e. what the manager believed the assets were worth, and the value that fees were hitherto based upon) would have seen the manager rewarded with almost 1% of the entire equity value of the trust. We saw this as a poor incentive structure, which risked remunerating the manager for managing the trust to quite so wide a discount.

Outcome: We immediately sought to engage with the board to better understand why they had proposed the structure they had and to share our thoughts on what we felt was in the best interests of Castlefield clients. Ultimately, we were pleased to see the changes to the calculation basis of the investment manager’s fee stand, while the more challenging, transaction-related fees were removed from the final agreement.

NCC REMUNERATION ENGAGEMENT

Written by
Barney Timson



SUMMARY: Ahead of the AGM, we contacted the board of Manchester-based cyber-security company, NCC Group, to discuss the topic of remuneration, and more specifically the use of performance metrics for variable pay awards to the executive team.

Earlier this quarter, we engaged with NCC Group, held within our Castlefield Thoughtful UK Smaller Companies fund. NCC provides services which help clients to understand their cyber risks and improve their resilience against them.

Ahead of the Annual General Meeting (AGM) we wanted to get in touch with the board to gain a better insight into its remuneration policy. Specifically, we were interested in the derivation and usage of performance metrics in executive pay awards. We also noted that they had changed their financial year end, which is not a common occurrence, and therefore we wanted to understand the logic behind this switch.

We held a call with the Chairman, the Chair of the Remuneration Committee and the Company Secretary, which began with them providing some context relating to the remuneration of the executive team. They explained that following a period of instability, the current CEO came in and steadied the ship, growing margins and driving recurring revenues, and as a result of this, they wished to link remuneration with this aim. We wanted to understand the rationale behind the 40% weighting in the annual bonus award given to non-financial targets, with this figure larger

than what we would typically see. The board explained that given that the long term incentive plan was heavily weighted towards financial metrics, they felt a greater weighting could be placed on non-financials for the annual bonus awards.

Turning to the topic of the financial year end change, the board members explained that historically, the May financial year end proved to be difficult because the audit processes often ran into summer holidays, which caused delays in completion. In order to prevent these issues in the future, the board took the decision to change the financial year end to September.

Outcome: Following our call with the board, we took the decision to support the remuneration report. Given that NCC was a relatively new holding within the fund, this engagement provided us with the opportunity to formally meet with some key board members, and also resulted in a follow up meeting with the cyber security team to further our knowledge in this area.

DEMOGRAPHICS: THE 241 PROBLEM



We live in an ageing society and demographic change is influencing the global economy. Investment Analyst David Gorman has recently written an article looking at the impacts of demographic change and examines some of the sectors that stand to benefit from an ageing population. You can read the article in full [here](#).

VOTING ACTIVITY: Q1 2025

Written by Barney Timson
and Ffion Spencer



As investors, we believe that we have a responsibility to our clients, as well as the companies 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 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	154	87.0%
Number of resolutions where votes were cast Against	22	12.4%
Number of resolutions where votes were Abstained	1	0.6%

During the quarter, we voted at 22 meetings hosted by our investee companies, with a total of 177 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.

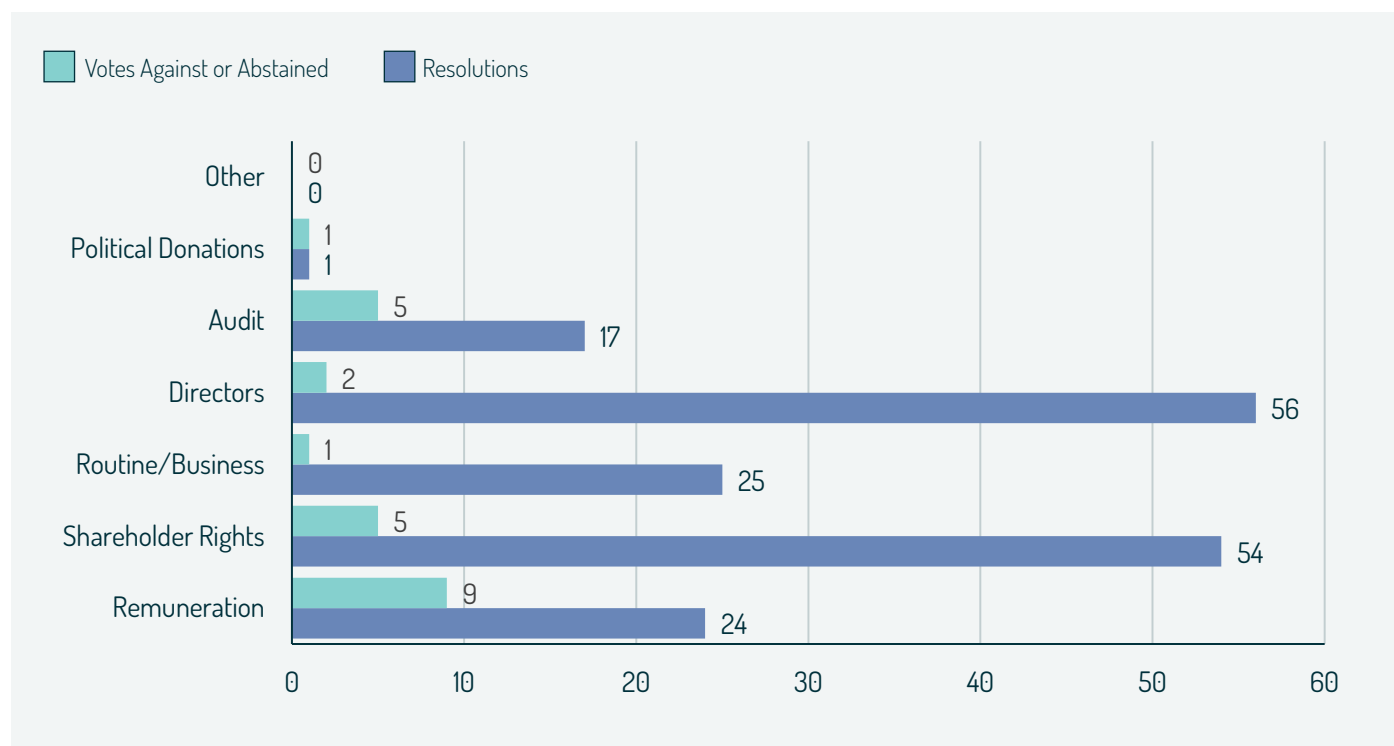
4. **POLITICAL DONATIONS:** We do not think it is appropriate for companies to make political donations and consequently will always vote against a resolution seeking permission to do so.

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 this category include resolutions that are often uncontroversial, 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 Transparency & Governance (E.S.T.) issues and reporting.

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



MEET THE TEAM



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