

# STEWARDSHIP REPORT Q4 2024



THE THOUGHTFUL INVESTOR

## EXECUTIVE SUMMARY

### Our stewardship highlights this quarter include:

#### MacFarlane

We met with the head of sustainability at **MacFarlane**, a packaging firm held in our Smaller Companies Fund. We discussed the company's Scope 3 emissions as well as its Innovation Lab, which helps corporate clients design new product packaging in ways that are as environmentally as possible.



#### Gym Group

Having previously engaged with **Gym Group** on the composition of its board of directors, we were pleased to have a call with the new Senior Independent Director (SID). The SID is traditionally a key contact point for investors and we were able to talk to the new SID about our concerns regarding the make-up of the board.

#### Invinity

We met with the CEO of **Invinity**, a vanadium-flow battery manufacturer, to provide ideas on how to incentivise senior colleagues at a pivotal moment for the business.



#### Gea Group

We joined an investor call with **Gea Group**, a supplier of equipment and solutions to the food processing industries. They provided an update on plans to decarbonise their own operations as well as to support clients to increase energy efficiency.

#### Unilever

We noted with interest that **Unilever** announced the sale of its Russian operations in October. We had engaged with the company on this issue at the time of the Russian incursion into Ukraine to understand why the company had not sought a local buyer, unlike so many of its peers.



## WHEN ENGAGEMENT REACHES ITS LIMIT: LESSONS FROM OUR UK SMALLER COMPANIES FUND

Written by  
David Elton



**SUMMARY:** Investor engagement often highlights success stories and rightly so. But sometimes an engagement doesn't deliver the desired outcome. Here, we share an example of a longstanding dialogue we had over several years with a company regarding its corporate governance.

Our UK Smaller Companies fund provides a unique perspective on stewardship, as we usually engage directly with senior people in the business. These high-quality dialogues allow us to have candid conversations about areas for improvement. However, investing in smaller companies can also reveal governance challenges. These often stem from legacy practices that predate the company's listing. Two recurring issues we frequently encounter are:

- **Long-standing directors exceeding the recommended nine-year tenure**, which can foster an overly familiar culture and diminish critical challenge.
- **Smaller board sizes**, which limit diversity of thought and perspectives critical for good decision-making.

At one company within the fund, both issues arose and persisted. Over six years, we observed the board shrinking in size and its independence waning. Concerned about the escalating governance risks, we launched an engagement campaign spanning several years.

We voiced our concerns to the company on multiple occasions and raised the matter with the firm's advisers. We also expressed our dissatisfaction with the status quo by voting against the reappointment of certain directors at the AGM. While the company acknowledged the validity of our concerns, they did not take immediate action.

During this time, the company made an acquisition and added a director from the acquired business to its board. While the appointment increased board size and was presented as an improvement, the situation was more complex. The new director was not independent due to a significant shareholding and prior ties to the acquired company. Consequently, the board's overall independence continued to decline.

Given the heightened governance risk, we reduced our holding in the company. Subsequent discussions with management confirmed that no further board changes were planned, nor did the company share our concerns about the risks of a majority non-independent board.

We often hear companies assert that non-independent directors can act independently in practice, but such claims are difficult to substantiate. As fiduciaries, we must rely on verifiable governance standards, not assurances.

Ultimately, our engagement reached its limit. When this happens, we assess whether the status quo is acceptable. In some cases, we can agree to disagree, or even adjust our perspective if compelling justifications exist for governance deviations. However, in this instance, the risks outweighed the potential benefits. We therefore made the rare decision to sell the shares.

To be clear, the investment had performed satisfactorily over the years and there is nothing to suggest that the governance risks are anything but risks at this stage. Ultimately though, we are here to serve our clients. If we can achieve the same returns but with lower risk by investing elsewhere, then that's what we are obliged to do.

We have chosen not to disclose the name of the company in question. We do not believe in "naming and shaming" as a constructive tactic and remain hopeful that we can continue to reflect our views to the board, even post-disinvestment.

Even though the engagement didn't yield the intended results, it was far from futile. The process offered valuable insights into management's thinking, which informed our decision to divest. In stewardship, success isn't always about achieving immediate change. Sometimes, it's about recognising when to walk away in the best interests of our clients while maintaining the door for future dialogue.

## UNILEVER EXITS RUSSIA

Written by  
Ita McMahon



**SUMMARY:** We hold Unilever shares in both our UK Opportunities and our European fund. We noted with interest that the company announced the sale of its Russian operations in October 2024. We had engaged with the company on this issue at the time of the Russian invasion of Ukraine to understand why the company had not sought a local buyer, unlike so many of its peers.

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At the time of our initial engagement, the company said that it had been unable to find a suitable buyer that would safeguard its 3,000 local staff. It pointed out that its Russian operations were producing important food and hygiene products, rather than non-essential items and that Russia only represented 2% of global revenue. The company was keen to stress that it was operating under UK sanctions law, whereby the Russian business was ring-fenced from the rest of Unilever's operations. In addition, no profit was repatriated to Unilever's headquarters. We kept a close eye on the situation and followed up with the investor relations team again some months later. Although not an ideal situation, our view was that the company was attempting to work through the issue carefully.

We also recognised that the ubiquitous nature of multinational companies means that, with the ebb and flow of world events, it is inevitable that there will be some exposure to controversial markets at some point. That said, we were uneasy about Unilever's continued presence in the region and, as such, we are supportive of the company's decision to sell its Russian business. Although the company had made a statement denouncing the invasion, its continued presence in Russia made it an outlier amongst its Western peers. In addition to these reputational risks, there was an increasing likelihood of Russian state interference in the business.



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## AN UPDATE FROM GEA GROUP

**SUMMARY:** We hold shares in Gea Group in our European Fund. The company provides equipment and solutions for food processing and pharmaceutical manufacturing. In December, we joined a call with a small number of other investors for an update on the company's progress towards its social and environmental goals.

Gea has set ambitious targets on net zero and on increasing the percentage of revenue that it derives from products with its independently verified Add Better label. The label denotes products and solutions that are 'significantly more resource-efficient than their predecessors'.

The meeting was mainly an information session, where the company talked about:

- High energy costs driving customer demand for efficient processes, which Gea is well-placed to provide. In fact, the company is going further and now provides a consulting service to customers that want to decarbonise their own operations.
- The company's climate transition plan, which includes a EUR 175m investment to decarbonise its sites over the next fifteen years
- Gea's involvement into the world's first cultivated meat production plant in the US.

We took the opportunity to ask some technical questions about its carbon calculations. In particular, we were keen to make sure that any claims about carbon savings derived from the use of Gea products could be clearly evidenced so as to avoid any risk of greenwashing. The company reassured us that it is using newly issued international guidance to underpin its "carbon avoided" calculations.

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In addition, we encouraged Gea to share more widely details about its decarbonisation investment plan and the predicted return on investment more widely. We know that for every corporate leader like Gea, there are many more companies that remain reluctant to make significant investment in low carbon technology. We need more real life examples from companies like Gea, to prove the business case and to demonstrate the return on investment. Gea's representatives were open to this idea and we will follow up with them in due course on this.

Written by  
Ita McMahon



## DRIVING INCREMENTAL PROGRESS THROUGH CONSISTENT ENGAGEMENT

**SUMMARY:** Not every engagement with investee companies involves dramatic developments. Often it is ongoing, consistent conversations that are central to how we look to drive change. Below, we highlight two examples of such engagements from this quarter.

### Macfarlane Group:

#### Advancing Climate Ambitions

We held a productive meeting with packaging company Macfarlane's relatively new Head of Sustainability. This conversation followed a conversation we initiated earlier in the year where we conducted targeted engagement with companies that had not established net-zero commitments. During our discussion, we were reassured that the foundations of the company's climate strategy had been established, including extensive baseline work undertaken to better understand its Scope 3 emissions.

We also received an update on key initiatives, including transitioning Macfarlane's truck fleet to more environmentally friendly alternatives and integrating environmental performance metrics into supplier assessments. These steps are encouraging signs of the company's commitment to sustainability. Additionally, Macfarlane's Innovation Lab remains a pivotal resource, fostering customer collaboration and accelerating innovative packaging solutions with sustainability considerations at the fore—a key area of focus and where the company hopes to set itself apart under growing customer pressure.

While the industry still faces significant challenges and change in relation to the sustainability of packaging, it was encouraging to see clear progress and a strategic pathway being developed by the team. Alongside that of the consumer, the importance of encouragement and continued pressure from the investment community to accelerate progress was also emphasised, a role we are committed to fulfilling as a supportive and engaged shareholder.

### The Gym Group:

#### Enhancing Board Independence

Our ongoing engagement with The Gym Group, the low-cost gym provider, around governance and board independence also took another positive step during the quarter. Following prior discussions at the time of the AGM this year, the company got in touch to offer a meeting with the newly appointed Senior Independent Director (SID). This proactive approach from the company underscores the value of our consistent engagement, regardless of investor size.

The meeting focused again on the composition and independence of the board. We were pleased to hear that the company acknowledges the challenges and perceptions surrounding this and is carefully considering its options going forward. This further dialogue provided reassurance that, as well as investor feedback, board independence and governance practices are all being taken seriously.

This engagement is a testament to how companies recognise the importance of engaged shareholders. Even though we are not a top investor in the company, our input is valued, and The Gym Group's outreach highlights the impact of our consistent and constructive efforts over time.

Written by  
David Elton



## INVINITY REMUNERATION

**SUMMARY:** We consulted with the vanadium-flow battery manufacturer, Invinity, throughout the year on the topic of remuneration, reviewing their current arrangements and sharing examples of best practice to further improve their own approach and reporting.

Earlier this year, we engaged with Invinity Energy Systems, the Vanadium flow battery manufacturer held within our CFP Castlefield Thoughtful UK Smaller Companies fund. Like many of our engagements, this was initially borne out of the need for further information in order for us to vote at the Annual General Meeting (AGM).

At Castlefield we utilise the services of ISS for Proxy Research, however we also operate our own internal voting guidelines. We believe our approach to stewardship is more thoughtful. However, to achieve this, it requires us to be more engaged with our investee companies, maintaining strong lines of communication to understand fully the activities of management.

**“Ahead of the AGM, we had a meeting with the investor relations function at Invinity on the topic of remuneration.”**

Ahead of the AGM, we had a meeting with the investor relations function at Invinity on the topic of remuneration. We highlighted that our Proxy Research advisor had recommended voting against the remuneration report because the executive team had been granted nil-cost share options. For context, Invinity is pre-profit, therefore paying out cash bonuses to management as an incentive is not the most appropriate use of funds at this stage of the company's development.

As the name suggests, options provide an opportunity for specific employees to buy company shares at a pre-determined price at a defined point in the future. The issue with Invinity doing this was that other than share price, there were no performance conditions attached to these options, which contravened UK Corporate Governance Code best practice guidelines. The team were very engaged throughout our conversation and vowed to share our feedback with the board.

However, this was not the end of our engagement. A short while after our initial conversation, Invinity requested that we meet with the CEO so that we could provide an investor perspective on their remuneration arrangements. We are always pleased to take part in this kind of dialogue because it provides us with the opportunity to directly influence company strategy. In the meeting, we shared our expectations regarding what we like to see, alongside a number of best practice examples of remuneration

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reporting. These suggestions were well received by Invinity, and work is currently underway to review the way they award and report on their remuneration packages. We were very pleased with the outcome from this engagement, and it is a good example of the benefits from speaking directly with our investee companies.

Written by  
Barney Timson



# VOTING ACTIVITY: Q4 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.

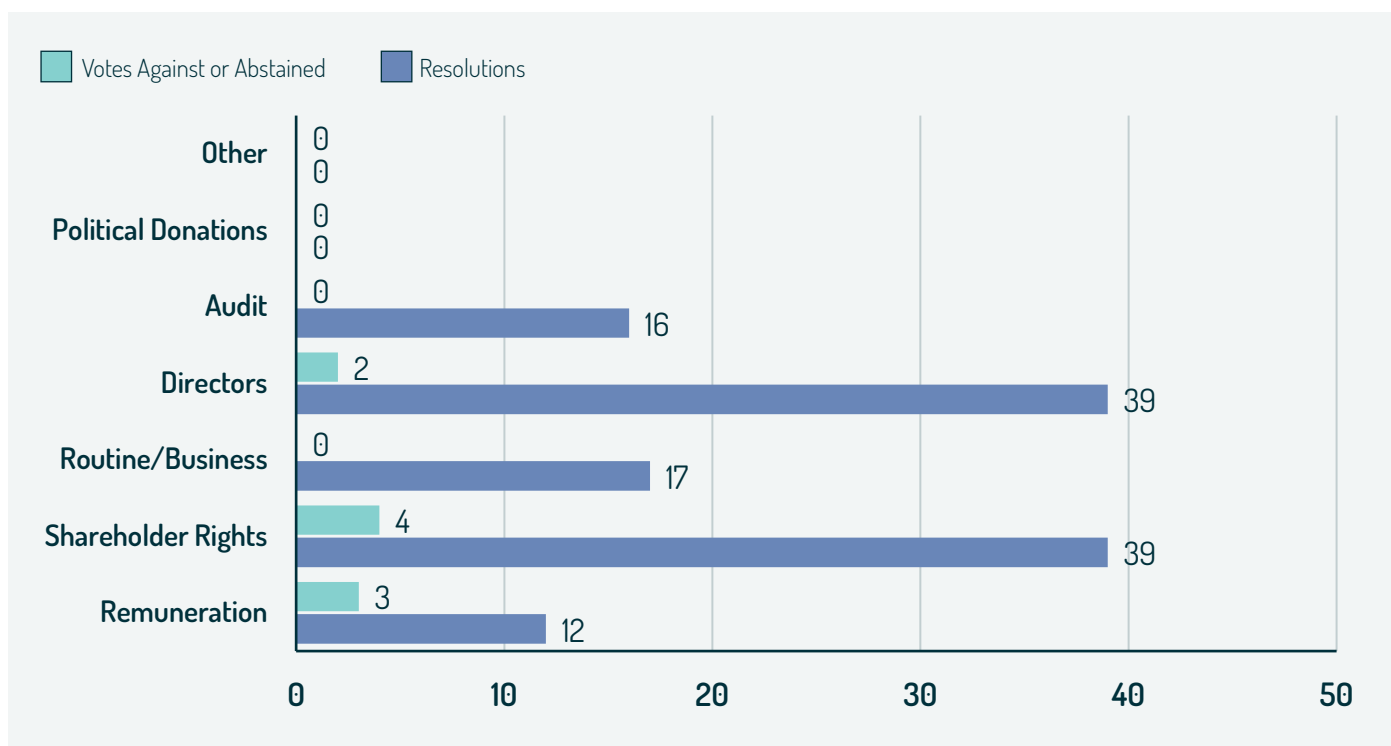
## RESOLUTIONS

Number of resolutions where votes were cast For	114	92.7%
Number of resolutions where votes were cast Against	8	6.5%
Number of resolutions where votes were Abstained	1	0.8%

During the quarter, we voted at 14 meetings hosted by our investee companies, with a total of 123. resolutions.

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| 1. <b>REMUNERATION:</b>                              | 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. <b>DIRECTOR INDEPENDENCE &amp; EFFECTIVENESS:</b> | 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. <b>SHAREHOLDER RIGHTS:</b>                        | 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. <b>POLITICAL DONATIONS:</b>                       | 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. <b>THE AUDIT PROCESS:</b>                         | 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. <b>ROUTINE/BUSINESS:</b>                          | 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. <b>OTHER:</b>                                     | This category may include certain resolutions proposed by shareholders and votes on topics such as Environmental, Social and 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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Assistant Investment Analyst



**Callum Wells**  
Chartered FCSI, Chartered  
Wealth Manager  
Investment Manager



**David Elton**  
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**Ita McMahon**  
BA (Hons), MA, IMC  
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Partner



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Specialist



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Investment Manager



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Chartered Wealth Manager  
Chair



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**William Thomson**  
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