CASTLEFIELD

THE THOUGHTFUL INVESTOR

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2019 Stewardship Consultation Response

At Castlefield Partners, we take very seriously our responsibilities as stewards of our clients' assets. We are therefore pleased to be given the opportunity to share our views on the proposed revisions to the UK Stewardship Code. As a smaller investment management firm based outside London, we hope that our answers to the consultation questions will offer a different perspective.

Q1. Do the proposed Sections cover the core areas of stewardship responsibility? Please indicate what, if any, core stewardship responsibilities should be added or strengthened in the proposed Principles and Provisions.

Yes, we believe the Sections offer sufficient coverage of the necessary elements of stewardship. No additions required.

Q2. Do the Principles set sufficiently high expectations of effective stewardship for all signatories to the Code?

We approve of the higher standards outlined in the 2019 Draft and feel that they are conducive to creating an environment where asset owners and managers integrate stewardship responsibilities into their investment processes in a meaningful way.

Q3. Do you support 'apply and explain' for the Principles and 'comply or explain' for the Provisions?

Castlefield adopt a "comply or explain" policy when it comes to applying our own Corporate Governance and Voting Guidelines and we feel that the same approach to the provisions of the Stewardship Code works well. We are also in favour of the "apply and explain" policy as evidence of application of the principles will be important to ensure compliance with the core aims of the Code. The requirement to Apply and Explain helps "raise the bar" on disclosure and contributes towards creating a market for stewardship.

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Q4. How could the Guidance best support the Principles and Provisions? What else should be included?

Suggestions of good practice contained within the guidelines will provide helpful information for those looking to improve their stewardship efforts in line with the Code.

Q5. Do you support the proposed approach to introduce an annual Activities and Outcomes Report? If so, what should signatories be expected to include in the report to enable the FRC to identify stewardship effectiveness?

We support the idea of annual monitoring of signatories' efforts through analysis of annual reports on stewardship. Castlefield produce quarterly stewardship reports as we feel that regular reporting gives clients an up-to-date picture of our stewardship and engagement efforts. These quarterly updates are produced as well as an in-depth annual report. At the end of the second quarter we provide a report which covers the entire previous year. This is to ensure that we are not only providing regular insight into our activities but are also giving a picture of how these efforts build over the course of a year and what patterns emerge in our voting. In our stewardship reports we include our voting statistics, engagement case studies, any collaborative projects we have undertaken and thematic pieces on emerging ESG issues. We feel that these elements would be important to include in the proposed Activities and Outcomes Report.

We would be interested to know if the need to produce an Activities and Outcomes Report would be satisfied by the pre-existing stewardship report format or whether the report the FRC proposes would be in addition to any stewardship reporting that is already in place.

Q6. Do you agree with the proposed schedule for implementation of the 2019 Code and requirements to provide a Policy and Practice Statement, and an annual Activities and Outcomes Report?

The schedule allows sufficient time for companies to adopt the revised Code and produce the materials for the new requirements.

Q7. Do the proposed revisions to the Code and reporting requirements address the Kingman Review recommendations? Does the FRC require further powers to make the Code effective and, if so, what should those be?

The proposed assessment of Policy and Practice Statements along with reviews of annual Activities and Outcomes reporting should meet the requirements outlined in the Kingman Review. We believe that both will serve as effective monitoring devices. However, as outlined in our answer to Question 5, further clarity on the distinction between an annual Activities and Outcomes Report and an annual Stewardship Report would be much appreciated.

Thematic reviews would be very helpful – the FCA makes good use of these. Publications showcasing stewardship trends and best practice would provide useful feedback for improvement. Such reviews could also look to include a section on

smaller firms to set an expectation that stewardship can and should be undertaken by investors of all sizes.

Q8. Do you agree that signatories should be required to disclose their organisational purpose, values, strategy and culture?

Yes. In the interests of transparency, we believe this is an essential step in ensuring that signatories are aligned with the Principles and Provisions of the Code.

Q9. The draft 2019 Code incorporates stewardship beyond listed equity. Should the Provisions and Guidance be further expanded to better reflect other asset classes? If so, please indicate how?

Yes, further guidance on how this could best be achieved would be much appreciated.

Q10. Does the proposed Provision 1 provide sufficient transparency to clients and beneficiaries as to how stewardship practices may differ across funds? Should signatories be expected to list the extent to which the stewardship approach applies against all funds?

We believe that stewardship should be discussed at board level as it is central to corporate purpose in the investment management industry. Requiring signatories to explain publicly their approach to stewardship therefore seems reasonable, at both organisational and fund level. Provision 1 appears to offer sufficient indication of how stewardship practices should be explained to end clients. If different stewardship practices are implemented across different funds managed by the same organisation, this should be clearly explained. Whilst we agree that requiring individual funds to become signatories to the Code could result in administrative burdens, we also feel that fund level explanations of how stewardship practices are implemented are an important measure.

Q11. Is it appropriate to ask asset owners and asset managers to disclose their investment beliefs? Will this provide meaningful insight to beneficiaries, clients or prospective clients?

In answer to both questions, yes. As previously indicated in our answer to Q8, we feel that a clear explanation of the investment process that is utilised is essential. Transparent and detailed descriptions of how, and if, ESG considerations and stewardship practices are utilised and integrated when making investment decisions is a key part if this disclosure.

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Q12. Does Section 3 set a sufficient expectation on signatories to monitor the agents that operate on their behalf?

Yes, we agree that in order to effectively carry out stewardship activities, signatories must demonstrate that an appropriate level of commitment exists across the organisation to achieving stated stewardship objectives. This is particularly important when it comes to those directly tasked, either internally or externally, with the implementation of the stewardship agenda.

Q13. Do you support the Code's use of 'collaborative engagement' rather than the term 'collective engagement'? If not, please explain your reasons.

We do not have a particular preference for either phrase but are content with the change to "collaborative".

Q14. Should there be a mechanism for investors to escalate concerns about an investee company in confidence? What might the benefits be?

An escalation mechanism would prove useful where investors have significant concerns. In a situation where the application of stewardship and engagement principles have failed to yield results deemed sufficient to mitigate the identified risk, a procedure whereby a third party can be called upon to intervene may prove to be an important instrument for addressing issues that could have wide reaching consequences.

Q15. Should Section 5 be more specific about how signatories may demonstrate effective stewardship in asset classes other than listed equity?

As previously touched upon in answer to Q9, further guidance on how investors may best exert influence and exercise their rights would be much appreciated.

Q16. Do the Service Provider Principles and Provisions set sufficiently high expectations of practice and reporting? How else could the Code encourage accurate and high-quality service provision where issues currently exist?

We agree that it is the responsibility of asset owners and asset managers to ensure that they are implementing their stewardship activities in accordance with their disclosed policy. An important part of this is to explain:

1. **If and how they use the services of third-party providers**
2. **Why a particular service provider was selected**
3. **How the service provider is held accountable**

We feel that the inclusion of the three reporting expectations outlined above will help to monitor the influence of investment consultants and proxy advisers.

Further Comment

The new reporting regime should not disadvantage smaller firms like us, with limited resources, by being overly-onerous as such an eventuality would run counter to the idea of creating a market for stewardship.

We hope that the Castlefield responses to the FRC consultation questions offer helpful insights and our responses will help in the process of enhancing stewardship activities within the investment industry.

Kind regards,

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