

# CASTLEFIELD FUNDS

## Assessment of Value

30<sup>th</sup> June 2020

(Relating to the 12-month period ended 28<sup>th</sup> February 2020)

Castlefield B.E.S.T Sustainable European Fund

Castlefield B.E.S.T Sustainable Income Fund

Castlefield B.E.S.T Sustainable UK Opportunities Fund

Castlefield B.E.S.T Sustainable UK Smaller Companies Fund

Castlefield Real Return Fund



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## GLOSSARY OF TERMS

SPECIFIC TERM USED	INTENDED MEANING
ACD	Authorised Corporate Director
AFM	Authorised Fund Manager, meaning the ACD of a scheme
AMC	Annual Management Charge
AUM	Assets under management
B.E.S.T Sustainable Sub-funds	The Sub-funds, excluding CRRF
CAP	Castlefield Advisory Partners Limited
Castlefield	Collectively Castlefield Partners Limited and its associated companies including CAP, CFP & CIP
CFP	Castlefield Fund Partners Limited
CIP	Castlefield Investment Partners LLP
COLL	The Collective Investment Schemes sourcebook which applies, inter alia, to investment companies with variable capital and ACDs
FCA	Financial Conduct Authority
IA	The Investment Association, trade body providing Fund sector categorisations
Investment Adviser	CIP
Maitland	Maitland Institutional Services Limited
NED	Non-Executive Director
OEIC	An open-ended investment company
OCF	Ongoing Charges Figure representing an aggregated cost to investors calculated as a percentage of the assets & Liabilities within the Fund. A Fund price is inclusive of these charges including (not exclusively) the fees of;  Investment Adviser, ACD, Registrar, Auditor, Depositary & Custodian.
Castlefield Portfolio Fund	The Castlefield B.E.S.T Sustainable Portfolio Fund
CRRF	The Castlefield Real Return Fund, being an individual Sub-fund, managed to a specialist mandate, but with lesser though growing emphasis than the other Sub-funds on Value-Based investment. Not currently capable of being identified as a 'B.E.S.T Sustainable' fund
Société Générale	Société Générale Securities Services
Sub-fund(s)	Collectively: Castlefield B.E.S.T Sustainable Income Fund; Castlefield B.E.S.T Sustainable UK Opportunities Fund; Castlefield B.E.S.T Sustainable UK Smaller Companies Fund; Castlefield B.E.S.T Sustainable European Fund; and Castlefield Real Return Fund, the main characteristics of which are summarised in the Appendix and each, individually, a "Sub-fund"
Unitholders / Units	Investors in the shares of the investment company with variable capital (ICVC), also known as an OEIC.
Values-Based investing	An investment approach designed to incorporate fully the values or ethical concerns of investors as part of the investment process. Sometimes also referred to as 'ESG' investing or responsible and sustainable investing, although definitions vary across investing institutions.

# ATTESTATION AND EXECUTIVE SUMMARY

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## ATTESTATION

Based upon the relevant criteria specified by the FCA in COLL, the Board is satisfied that the Sub-funds individually deliver value to investors.

## EXECUTIVE SUMMARY

1. There is a comparatively small, but growing appetite in the UK market for investments which are made in a Values-Based manner. The spectrum of investment managers now claiming to take a Values-Based approach is broad, but there is a credible argument that genuine, actively managed, Values-Based investing is rare.

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2. The Sub-funds provide highly distinctive offerings in a way in which there are few, if any, credible comparable competitors. The B.E.S.T Sustainable Sub-funds are managed with reference to an all-encompassing Values-Based mandate. All Sub-funds are delivered by a Values-Based investment manager. The Sub-funds therefore cater directly to clients who have a firm opinion on how they wish their money to be managed and care about the values of the firm that manages it.

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3. Alongside this distinctive Values-Based proposition, the Sub-funds are performing competitively, including in terms of both investment performance and cost, by reference to the peer groups and/or benchmark noted in the official investment objective of each and taking into account the positive impacts of various management actions undertaken within the past twelve months to enhance certain of the strategies as noted below.

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4. The Board recognises that the Coronavirus pandemic has made current operating conditions exceptional and challenging. This assessment relates to a period almost exclusively prior to that outbreak. The Board believes its analysis and conclusions remain valid, at the time of writing. Analysis of returns produced by the Sub-funds for periods to 31<sup>st</sup> May 2020 has been conducted in order to supplement and validate conclusions reached based on periods to 28<sup>th</sup> February 2020.

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5. In addition, while it is too early to make definitive judgements, the Board believes the pandemic will add further momentum to Values-Based investing and to the attraction, for investors, of fund management businesses run in a Values-Based manner, given the enhanced emphasis the pandemic will place in future on sustainable business practices, which are more resilient and built for the longer term.

## OBJECTIVE, METHODOLOGY AND APPROACH

The Financial Conduct Authority (FCA) has introduced new rules that require us, as the AFM to the Fund, to carry out an annual assessment of whether we provide value for our investors. We are publishing this assessment in accordance with these new rules.

### As a Values-Based firm, we believe in continuously assessing

- whether we are doing the right thing, where we are the investment manager, in allocating our investors' money to the businesses in which we invest;
- the effectiveness and efficiency in the way in which we discharge our duties as AFM; and
- more generally, in the way Castlefield is run

We welcome this further opportunity to provide our assessment of how the Sub-funds are providing value for our investors.

### We have taken as the framework for our assessment the seven headings provided by the FCA in COLL, namely:

#### 1. Quality of Service

(by which the FCA means the range and quality of services provided to unitholders)

#### 2. Performance

(by which the FCA means the performance of the scheme, after deduction of all payments out of the scheme property as set out in the prospectus and over an appropriate timescale having regard to the scheme's investment objectives, policy and strategy)

#### 3. Costs

(by which FCA means in relation to each charge, the cost of providing the service to which the charge relates and when money is paid directly to associates or external parties, the cost is the amount paid to that person)

#### 4. Economies of Scale

(by which the FCA means whether the AFM is able to achieve savings and benefits from economies of scale, relating to the direct and indirect costs of managing the scheme property and taking into account the value of the scheme property and whether it has grown or contracted in size as a result of the sale and redemption of units)

#### 5. Comparable Market Rates

(by which the FCA means in relation to each service, the market rate for any comparable service provide by the AFM or to the AFM or on its behalf, including by any person to which any aspect of the scheme's management has been delegated)

#### 6. Comparable Services

(by which the FCA means, in relation to each separate charge, the AFM's charges and those of its associates for comparable services provided to clients, including for institutional mandates of a comparable size and having similar investment objectives and policies)

#### 7. Classes of Units

(by which the FCA means, whether it is appropriate for unitholders to hold units in classes subject to higher charges than those applying to other classes of the same scheme with substantially similar rights)

Whilst there has been limited express additional guidance from the FCA on how the assessment should be conducted, we believe the approach we have followed in coming to our assessment has been a rigorous one, reflecting, over an extended period, detailed input and analysis from a wide range of executives across CFP and Castlefield and in-depth consideration by the Board of CFP, which includes two new non-executive directors, appointed pursuant to the new FCA rules.

This is the first year in which these assessments have been made. We will continue to monitor FCA reactions to the assessments generated by AFMs pursuant to these rules and refine and adapt our approach, where necessary, to reflect emerging FCA guidance, alongside industry best practice.

# OBJECTIVE, METHODOLOGY AND APPROACH

## 1. QUALITY OF SERVICE

We think Quality of Service is fundamental in assessing the value being delivered to investors.

In assessing Quality of Service we have taken into account the investment approach of CIP and the way in which Castlefield, as a business, is run, alongside our record on client service and operational execution. Given the Values-Based attributes we know our investors are looking for from the Sub-funds, we have placed particular weight on CIP's investment approach and the way Castlefield is run.

**On investment approach, we believe five key points underscore the quality and differentiation of what investors are receiving from the B.E.S.T Sustainable Sub-funds:**

- An integrated approach to financial and non-financial analysis (i.e., B.E.S.T is not an overlay);
- Proprietary research (rather than reliance on third party data which has significant shortcomings) from a well-resourced, experienced team;
- Portfolios which do not include elements which could be subject to 'greenwash' claims (e.g. allocations to oil and gas companies) which we sometimes see in funds claiming to be sustainable;
- A voting and engagement policy which compares extremely favourable to what we see more generally across the sector; and
- An External Advisory Committee, with client/investor membership alongside third party ESG specialists.

**On the way in which Castlefield is run, we have noted key differentiators which speak further to the Fund's Values-Based proposition, including:**

- Castlefield is primarily an employee-owned business – we are all co-owners rather than employees and this feeds through positively into a culture of shared accountability and a longer-term outlook;
- CIP does not adopt a 'pay for performance' culture. We see the bonus culture prevalent in the asset management industry as counter-intuitive to long-term or sustainable investing;
- we champion career development and, in our view, Castlefield is one of the UK's leading asset management firms on gender diversity;
- we look to manage our supply chain sustainably. For example, our cleaners are paid the Living Wage; we source our coffee from responsible small-scale suppliers and the due diligence we carried out on our new IT service provider, included on conduct standards; and
- our reputation is reflected in the awards we win – most recently, we have been shortlisted in two categories for the Better Society Awards 2020 – the Green Finance Aware and the Good Money Award and we have won the 'Best Financial Adviser to Work For' category in the 2020; awards organised by Professional Adviser magazine.

Our client service is working effectively. This includes efficient interaction with those responsible for the management and administration of the Sub-funds and good comparative levels of disclosure and transparency. This disclosure includes, in addition to regular reporting, publication of a quarterly Stewardship Report, highlighting our active engagement with portfolio companies, and the opportunity for investors to attend the annual Castlefield Symposium, which allows them to meet and discuss directly how the Sub-funds are managed.

Our operations are also working effectively, based on consistent monitoring of CFP's performance and where these functions are delegated, the performance of third-party delegates in line with agreed service level agreements. As a consequence of this, we received no complaints relating to the management or administration of the Fund during the review period.

## 2. PERFORMANCE

**Our analysis of the Sub-funds' individual performance and risk to the end of February 2020, on an absolute basis and relative to relevant IA sector peer groups (and in the case of the CRRF a very specific benchmark), indicates that the Sub-funds are providing value to investors by:**

- in all cases:
  - meeting their long-term performance objectives in terms of achieving growth in capital and/or income over the long term (meaning a minimum of five years or in the case of CRRF by reference to a rolling 3 year benchmark);
  - currently demonstrating acceptable levels of risk; and
  - achieving this while also operating Castlefield in a Values-Based manner which few, if any, other managers within the Peer Groups are offering
- in the case of the Castlefield B.E.S.T Sustainable UK Smaller Companies Fund and the Castlefield B.E.S.T Sustainable European Fund, clearly outperforming the average returns of specified IA sector peer groups over five years (and/or other relevant time periods), alongside offering investors all-encompassing Values-Based investing which few, if any, other managers within the Peer Groups are offering;
- in the case of the Castlefield B.E.S.T Sustainable Income Fund and Castlefield B.E.S.T Sustainable UK Opportunities Fund demonstrating more recent much improved performance, which has continued in the quarter beyond end February 2020, after a proactive change in the investment approach adopted by the Investment Adviser, alongside offering investors all-encompassing Values-Based investing, which few, if any, other managers within the Peer Groups are offering; and
- in the case of CRRF demonstrating outperformance of a specific benchmark objective.

## 3. COSTS IN GENERAL

We have tested the Ongoing Charges Figure (OCF) relating to each Sub-fund by comparing each one to the average for the IA sector peer group relevant to each Sub-fund. The exception is in respect of the CRRF, where we have compared the OCF to the average OCF applying to the small group of funds with similar investment objectives.

The OCF, includes, but is not limited to, fees payable to the investment adviser, ACD, custodian, depositary and transfer agent. To the extent possible, account has been taken of total similar costs imposed by any underlying funds in which any one Sub-fund in turn invests. We have also taken into account the benefits of cost reductions relating to the Sub-funds which are already in train and which will begin to flow through to investors during the latter half of 2020.

Our conclusion is that these costs do represent value to investors as currently incurred or soon to be incurred during the latter part of 2020 and that they are or will be below or comparable to relevant current IA sector peer group averages (or in the case of the CRRF compared to the specific average of identified funds) and that this is being achieved:

- (i.) whilst also offering investors the Values-Based investing and/or a Values-Based manager they value and are seeking, which few if any other managers within the comparable peer group are offering; and
- (ii.) at an AUM scale significantly below that of mainstream sector averages, which reflects the small, but growing appetite in the UK market for investments which are made in a Values-Based manner and the current embedded scale advantages of funds not investing in a Values-Based manner.

We note that the specifics of individual charges were considered in more depth as part of assessment under heading 5 (Comparable Market Rates) on page 8.

## OBJECTIVE, METHODOLOGY AND APPROACH

### 4. ECONOMIES OF SCALE

Although, as noted under costs in general, the sizes of the Sub-funds remain relatively small compared to mainstream IA sector peer group averages, we have nonetheless been able to build into our costing a range of savings as AUM increases which, taken in the round, allow us to achieve economies of scale.

In particular, a tiered fee structure applies in respect of the ACD fee, in relation to each of the Sub-funds and in respect of the Investment Adviser's fee, in relation to each of the B.E.S.T Sustainable Sub-funds i.e., in relation to all of the Sub-funds with the exception of the CRRF. One or both of these structures will automatically pass on savings in fees to the relevant Sub-funds' investors as assets managed grow. Similarly, "sliding scale" fees have been negotiated with third party service providers to all of the Sub-funds which, in general, are calculated by reference to the aggregate AUM of the Sub-funds in respect of which those services are provided.

A sliding scale IA fee does not apply in respect of the CRRF because its current OCF is slightly below that of directly comparable peers, which also do not apply a sliding scale IA fee.

### 5. COMPARABLE MARKET RATES

The market has been tested for comparable costs of services as part of an ongoing assessment of the value the services are providing to investors, including those in the Sub-funds.

Our conclusion is that the present range of costs already represent value for investors and that we have, as part of our ongoing assessments as noted earlier, identified further savings, the benefits of which will begin to flow through to investors during the latter part of 2020.

### 6. COMPARABLE SERVICES

We have deliberately structured the business at Castlefield to avoid the scenario where, for example, investors who access a particular strategy via a collective fund are charged considerably more than would be the case if an institutional investor accessed the same strategy directly via the same investment manager.

**In practice, this means, for example:**

- all investors in the Sub-funds pay the same amount to CIP for managing their money in the Sub-fund(s) concerned, whether they are clients of CIP, which then allocates money to the Sub-fund(s) or access the Fund directly via CFP;
- Castlefield carefully manages the mandates it will accept, precisely to avoid the kind of pricing pressures at issue here, with most of CIP's clients (by number) having portfolios worth less than £5m, a figure at which a negotiation around fees would not tend to arise;
- In circumstances, where there are larger investors in a Sub-fund who want a direct relationship with CIP, for example because they want additional day-to-day contact and/or reporting, they pay specific additional fees for those services, reflecting the additional time costs of the CIP to provide them (effectively the opposite of a discount).

### 7. CLASSES OF UNITS

The Sub-funds are structured in a straightforward and simple manner. Each has a single share class and thus a single charging structure per Sub-fund. All investors in any one Sub-Fund thus pay the same percentage charge.

Where Sub-funds previously offered different share classes at differing costs to investors, following a change in FCA's rules, the ACD was able to switch investors into adjacent (lower cost) share classes of the same Sub-fund. This exercise was implemented in July 2019, which was the first practical opportunity following the change in FCA rules, which allowed such proactive action on the part of the ACD. All share classes were then consolidated into the lowest charging share class, leaving one share class per Sub-fund.

This exercise positively affected 222 investors across all Sub-funds, producing a combined annualised saving of £68,245.



## APPENDIX

### SUMMARY OF THE MAIN CHARACTERISTICS OF THE SUB-FUNDS

<b>Name of the OEIC umbrella:</b>	Castlefield Funds
<b>Name of each Sub-fund:</b>	Castlefield B.E.S.T Sustainable European Fund Castlefield B.E.S.T Sustainable Income Fund Castlefield B.E.S.T Sustainable UK Opportunities Fund Castlefield B.E.S.T Sustainable UK Smaller Companies Fund Castlefield Real Return Fund
<b>Authorised Corporate Director:</b>	Castlefield Fund Partners Limited
<b>Investment Adviser:</b>	Castlefield Investment Partners LLP
<b>Trustee &amp; depository:</b>	Société Générale Securities Services
<b>Registrar:</b>	Maitland Institutional Services Limited <sup>1</sup>
<b>Auditor:</b>	Beever & Struthers

#### INVESTMENT OBJECTIVES & POLICIES:

##### Castlefield B.E.S.T Sustainable European Fund

The investment objective of this Sub-fund is to seek to achieve long term capital growth, which is superior to the median performance of all of the funds forming the official peer group of which the Sub-fund is a part. 'Peer group' is defined as being the Investment Association sector to which the Sub-fund has been allocated (currently being the Europe Excluding UK Sector) or to which it may be allocated in future, as determined by that body. Long term means over a minimum investment horizon of five years.

The Sub-fund invests principally in a concentrated portfolio of the shares of companies incorporated in European countries which the Investment Adviser considers offer opportunities for capital growth. The Sub-fund may also invest in money market instruments, units and/or shares in other collective investment schemes, deposits, warrants, cash and near cash.

Each of the above Sub-funds applies a distinctive investment process in seeking to achieve its own stated objective. The process is explained below:

In seeking to achieve the stated investment objective, the Investment Adviser uses a responsible investment research process to identify the universe of securities from which the individual Sub-fund may invest. The four criteria that need to be evidenced by each investment are reflected in the name of the Sub-funds, where "B.E.S.T" indicates Business & financial, Environmental & ecological, Social and Transparency & governance; however equal weighting may not be given to each element of these criteria when screening potential investments. The Investment Adviser then supplements this research process by selecting only those investments which, by their nature, are considered to be sustainable, in order to meet the particular investment objective. Sustainable activities are considered to be those necessary to ensure the long-term continuity of an activity, system, society or enterprise.

1. Currently under six months' notice of termination, issued 13<sup>th</sup> December 2019 and to be replaced by a chosen alternative provider.

**Castlefield B.E.S.T Sustainable Income Fund**

The investment objective of this Sub-fund is predominantly to generate a relatively high level of current income, together with income growth and some capital growth over the long term, which is superior to the median performance of all of the funds forming the official peer group of which the fund is a part. 'Peer group' is defined as being the Investment Association sector to which the Sub-fund has been allocated (currently being the UK Equity Income Sector) or to which it may be allocated in future, as determined by that body. Long term means over a minimum investment horizon of five years.

This is to be achieved by investing principally in a portfolio of UK equities, although money market instruments, collective investment schemes, deposits, warrants, derivatives (for hedging purposes) and other permitted investments and transactions may also be invested in.

**Castlefield B.E.S.T Sustainable UK Opportunities Fund**

The investment objective of this Sub-fund is to invest primarily for long term capital growth from a portfolio of investments which is superior to the median performance of all of the funds forming the official peer group of which the Sub-fund is a part. 'Peer group' is defined as being the Investment Association sector to which the Fund has been allocated (currently being the UK All Companies Sector) or to which it may be allocated in future, as determined by that body. The ACD's investment policy is actively to invest in those companies, primarily within the UK, where the Investment Adviser believes there are above average opportunities for growth. Long term means over a minimum investment horizon of five years.

**Castlefield B.E.S.T Sustainable UK Smaller Companies Fund**

The investment objective of this Sub-fund is to achieve long term capital growth, which is superior to the median performance of all of the funds forming the official peer group of which the Sub-fund is a part. 'Peer group' is defined as being the Investment Association sector to which the Sub-fund has been allocated (currently being the UK Smaller Companies sector) or to which it may be allocated in future, as determined by that body. Long term means over a minimum investment horizon of five years.

The investment policy is to invest predominantly in the shares of quoted smaller UK companies, including those listed on the Alternative Investment Market.

**Castlefield Real Return Fund**

This Sub-fund aims to generate a positive annualised real return over a rolling three-year basis. However, there is no guarantee that this objective will be achieved over that specific, or any, time period and there is always a risk of loss to the original capital of an investor. 'Real return' means a return over UK CPI, over a rolling three-year time horizon.

This Sub-fund can invest in transferable securities (both quoted and unquoted), units and/or shares in other collective investment schemes, structured products, deposits, warrants, fixed interest securities, money market instruments, and cash and near cash. The Sub-fund may also invest in derivatives and forward transactions for investment purposes as well as for efficient portfolio management (including hedging) and may also borrow and enter into stocklending and underwriting arrangements in accordance with COLL.

This Sub-fund does not bear the 'B.E.S.T Sustainable' description as, despite the Investment Adviser being willing and to some extent able to follow this implied investment process, given the investment objective of the Sub-fund and the types of currently available investment likely to be consistent with this process, it is not presently possible to source a majority of investments able to conform fully to the approach. The Investment Adviser is active in gradually moving the allocation of the Sub-fund towards those investments capable of conforming to the B.E.S.T Sustainable approach and it is anticipated that in future it should be possible to adopt more completely the Investment Adviser's main investment process.





THE THOUGHTFUL INVESTOR

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