Ruffer LLP

Environmental, Social and Governance report

for the year ended
31 December 2018

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£1.1 billion

managed for clients with ethical investment restrictions†

30+
bespoke ethical investment policies implemented for clients

40+
different ethical criteria used across mandates

† As at 31 December 2018

ESG representative at every stock review

2
ESG champions in the research team

6
ESG champions in the portfolio management team

2 Responsible investment team members

Franziska Jahn-Madell
Director, Responsible Investment

Alexia Palacios
Analyst, Responsible Investment

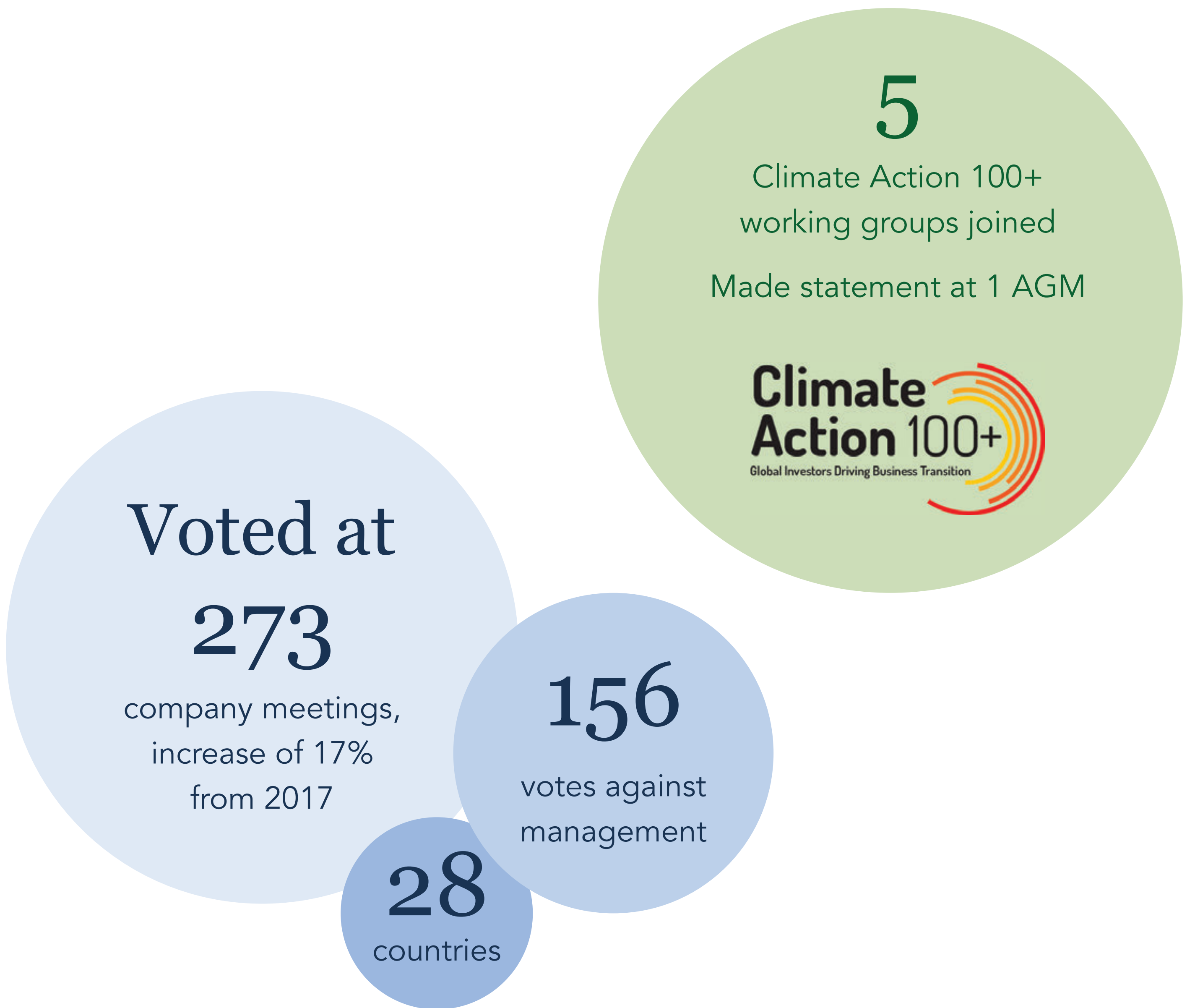
2009
Ruffer starts managing portfolios with ethical investment restrictions

2012
Ruffer becomes signatory to UK Stewardship Code

Launches the Charity Assets Trust, with ethical investment restrictions

2013

2014
Ruffer appoints ESG specialist



2015

Ruffer publishes first ESG Report

Supports CDP (formerly Carbon Disclosure Project)

Becomes signatory to Japan Stewardship Code

Sustainable Development Goals (SDGs) launched

Paris Agreement signed

2016

Ruffer becomes signatory to the Principles for Responsible Investment (PRI)

Co-files Aiming for A resolution at Rio Tinto AGM

Response to UK Stewardship Code assessed as Tier 1

The Pensions Regulator updates guidance for Trustees to include ESG

Paris Agreement ratified

2017

Ruffer joins the Institutional Investors Group on Climate Change (IIGCC)

Supports the Transition Pathway Initiative (TPI)

Founding investor signatory to Climate Action 100+

Task Force on Climate-related Financial Disclosures (TCFD) launched

2018

Ruffer becomes investor signatory to the Just Transition

Co-files shareholder resolutions at two oil and gas companies

EU Action Plan for Financing Sustainable Growth launched

DWP amends Occupational Pension Schemes Regulations regarding ESG factors and climate change

Our review of 2018

Welcome to Ruffer's fifth annual environmental, social and corporate governance (ESG) report. We would like to start this year's report with two personal reflections on the issues and events, and also some highlights and disappointments, that 2018 has brought to the world of responsible investment.

Franziska's highlights of 2018

Research trip to the US

My personal highlight in 2018 was an interesting research trip to the US with James Heal, Research Director and Head of Ruffer's Energy Group. The trip included company visits in Houston, Texas and attending the inspiring PRI in Person conference in San Francisco.

Houston, Texas

We met with a number of oil services companies: Apergy, National Oilwell Varco, Tenaris, Transocean and EOG Resources. The purpose of this trip was to better understand the implications of long-term headwinds such as climate change regulation, technological progress and carbon taxes for the sector. The companies showed a range of awareness of the issue of climate change, which will be incorporated into our analysis.

PRI in Person conference

The second part of the trip took us to the twelfth PRI in Person conference in San Francisco. This was held in parallel with the Global Climate Action Summit which created an extraordinary atmosphere.

Climate risks were identified as the largest and most material risks to investors. The conference featured a keynote address from former US Vice-President Al Gore, who drew comparisons between the sub-prime mortgage crisis and the climate change crisis, and highlighted the severe potential consequences for investors. In addition, he predicted that the sustainability revolution will be as big as the industrial revolution and as fast as the digital revolution.

At the conference, the work of Climate Action 100+ was praised and the progress in this area was commended, highlighting the importance of collaborative engagement and reinforcing our decision to be a founding investor signatory.

Meeting with ExxonMobil

In November, I was grateful to be asked to participate in a group meeting in Boston with ExxonMobil's corporate secretary, Neil Hansen, and other senior employees. Each participant addressed several issues in line with the objectives of Climate Action 100+ on climate governance, action and disclosure. Overall, the meeting was constructive and we look forward to continuing the dialogue.

EU Action Plan for Financing Sustainable Growth

In last year's report, we wrote about the High-Level Expert Group and I am excited about the further developments in 2018. In May, the Commission implemented a number of measures that formed part of the Action Plan. These included a proposal to create an EU classification system, also known as a taxonomy, which will allow the numerous definitions of 'sustainable' activities to be harmonised.

Furthermore, the proposed regulation will provide clarity and consistency on how institutional investors, such as asset managers, insurance companies, pension funds and investment advisors, should integrate ESG factors, risks and opportunities into their investment decision-making process.

The Commission also launched a consultation to determine the best way to include ESG considerations into the investment advice offered to individual clients, which Ruffer has responded to in detail. The consultation focussed on whether investment managers should also consider client-specific sustainability preferences when assessing if an investment product meets a client's needs.

Other developments

Alexia Palacios joined the team in early 2018 having previously worked on Ruffer's charity team and has brought with her a wealth of knowledge, enthusiasm and creativity.

Now over to Alexia for her reflections on 2018 – happy reading!

Franziska Jahn-Madell
Director, Responsible Investment

Alexia's highlights of 2018

Climate Action 100+

The urgent need to address climate change, and the regulatory and political environment in Europe, made engaging with companies on this issue a priority for our team in 2018. After initial meetings with a number of companies, more details of which can be found in the 'Engagement activities' section, it became increasingly apparent that engagement on climate-related issues was more likely to be successful if it was combined with other approaches – such as investor statements at annual general meetings (AGMs). Therefore, I attended BP's AGM in May 2018, along with other signatories to Climate Action 100+. We felt it was important to make a statement to the whole board to explain why improving governance of climate-related risks, reducing greenhouse gas emissions and improving disclosure are important to investors.

Natural capital

Each year, we choose an ESG topic of interest and host seminars for our clients and those working across the responsible investment industry. In 2018, we chose the concept of natural capital. One way of looking at the problem of climate change is that it is a consequence of humans depleting the world's natural capital. If we are to prevent significant changes to our climate, as well as reducing greenhouse gas emissions we also need to protect and in some places replenish this natural capital. We hosted two events during the year, exploring both why investors should care about natural capital and what they should be doing about it. We are particularly thankful to Andrew Mitchell, the Founder of Global Canopy, who spoke at both these events.

COP24 and the Just Transition

There was much anticipation in the lead up to the COP24 (Conference of Parties) of the United Nations Climate Change Conference in December 2018 in Katowice, Poland. The release in October of the IPCC (Intergovernmental Panel on Climate Change) Special Report on Global Warming of 1.5°C added to this anticipation. The report starkly laid out the likely consequences of global warming of 1.5°C and the additional damage that warming of 2°C could cause. The backdrop of this report highlighted the urgency with which progress needs to be made, especially since global greenhouse gas emissions are still rising. Disappointingly, at the COP24 the ambitions of governments were not sufficient to meet the goals of the Paris Agreement. The report reinforced our commitment to engage with the companies in which our clients' assets are invested that emit significant amounts of greenhouse gases.

Nevertheless, there was a significant achievement at the COP24. An investor statement was presented

that reflects the commitment in the Paris Agreement that the transition to a low-carbon economy needs to be 'both fast and fair' for workers and communities. This notion was of particular significance to those present as the conference was being held in a part of Poland where the influence of the coal industry can still be felt. When the Just Transition statement was presented at the COP24, it had attracted support from over 100 investors, including Ruffer, representing $5 trillion in assets under management.[1] This global commitment from investors was echoed when 53 governments, including the UK, signed the Silesia Declaration.[2]

2019

Looking forward, due to the increasing importance of responsible investment to our clients and within Ruffer, we are excited to be growing our team again. We are hopeful that 2019 will be another successful year, with further progress in our engagement activities and continued improvements in the way we conduct ESG analysis at Ruffer. If there are particular topics of interest, please do get in touch.

Alexia Palacios
Analyst, Responsible Investment

Executive summary

In this report we touch on a number of different areas.

Responsible investment at Ruffer

We present how we have committed to the Principles for Responsible Investment (PRI) by incorporating environmental, social and corporate governance (ESG) considerations throughout our research and investment processes.

Company case studies

We highlight some companies we currently hold in portfolios that we feel have interesting, innovative or impressive ESG credentials. This year we have included: the Ocado Group, which is working towards reducing its food waste and carbon intensity; Gold Fields, which is striving to improve its safety culture and reduce its environmental impact; Cigna, which is improving the cost efficiency of its insurance products and Toyota, which has set an ambitious environmental action plan.[3]

Articles

Each year, members of our responsible investment team write a number of articles on ESG topics of interest. In this report, we include articles on the divestment versus engagement debate, with reference to fossil fuel companies, and developments in corporate governance in Japan. More articles can be found at ruffer.co.uk.

Stewardship themes

At Ruffer, we take our stewardship responsibilities seriously as we believe this is an important part of our duty to our clients. In 2018, our voting and engagement activities focussed on climate change and lobbying, specifically political contributions and trade association memberships.

Voting activities

Our voting activities have risen in line with the increasing integration of ESG into our investment approach. The number of company meetings we voted at has expanded significantly over the last few years: from 192 in 2016 to 273 in 2018, an increase of 42%.[4] Ruffer voted against management on 156 resolutions in 2018, compared with 74 in 2016, an increase both in absolute terms and as a proportion of votes cast.[5]

Engagement activities

We are committed to engaging with companies on a wide range of topics. In this report, we highlight a number of engagements on the topic of climate change. In particular, we focus on the companies we are engaging with as part of the collaborative initiative Climate Action 100+, which include ExxonMobil, Royal Dutch Shell, BP and Imperial Oil. We also present engagements with a number of Japanese companies, including Mitsubishi Estate and Mizuho Financial, on governance issues such as remuneration, board effectiveness and cross-shareholdings, and gold mining companies where social issues, such as workforce safety, have been discussed.

Responsible investment at Ruffer

At Ruffer, we interpret responsible investment as the incorporation of environmental, social and corporate governance (ESG) considerations throughout our research and investment processes, while behaving as active stewards of our clients' assets.

As an absolute return manager with a relatively concentrated portfolio of equity holdings, we endeavour to fully understand a company's risks and opportunities, including relevant ESG considerations. As we have one investment approach and conduct our own research, we are able to systematically integrate these considerations across our research and investment processes.

Ruffer became a signatory to the Principles for Responsible Investment (PRI) in January 2016 in order to strengthen our commitment to integrating ESG into our investment approach. The PRI was launched in 2006 and comprises six goals, which are voluntary and provide a number of different ways to incorporate ESG into a signatory's investment approach. At the end of December 2018, the PRI had received endorsement from over 2,300 signatories.[6]

The following illustrates our commitment to the six principles.

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes

We believe ESG considerations are important drivers of investment performance, representing both sources of value and also investment risks. Therefore, incorporating these considerations into our investment approach forms an essential part of our responsibility to our clients. Our approach combines integrating these considerations into our research and investment processes along with active stewardship, including engagement and voting. We believe that investing responsibly will lead to better long-term outcomes for our clients.

Our responsible investment team partners closely with the analysts in our research team to identify and evaluate the risks and impacts to the environment and society that could arise as a result of poor management of a company's operations. The risks associated with weak corporate governance practices are also considered. Our responsible investment team participates in weekly research team meetings where new stock ideas are discussed. ESG considerations are then raised at stock reviews within the research team and with portfolio managers, as well as being included in the stock note. As ESG risks and opportunities evolve, these are raised in periodic stock reviews. ESG considerations are not only important in stock selection but are also factored into macroeconomic analysis, and hence issues such as water scarcity, energy and climate change are discussed regularly. We also provide ESG training to our research and portfolio management teams on a regular basis.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices

We act as stewards of our clients' assets and so it is our duty to ensure the companies in which we invest act in the long-term interests of their shareholders. We believe that engagement gives us an opportunity to improve our understanding of investee companies, which enhances our investment decisions. By engaging with a company, we are improving our understanding of the material ESG risks it faces, challenging its behaviour in relation to ESG considerations and in turn increasing its awareness of regulatory and societal changes. This is likely to result in superior outcomes and returns for our clients. Engagement

also lets us share our philosophy and approach to investing and corporate governance with a company, and enhances its understanding of our objectives. We will engage on our own, or with other investors that share our concerns through collaborative initiatives.

We believe in the power of engagement, but we have also found voting to be an effective tool if companies do not respond to our requests. We have co-filed resolutions where we felt this was the most appropriate course of action. We take the opportunity to vote seriously as it enables us to encourage boards and management teams to consider and address areas that we are concerned about. More information about our voting policy can be found in the 'Voting activities' section of this report or in the ESG and voting policies available at ruffer.co.uk.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest

We believe that it is fundamentally important for companies to disclose timely, detailed and accurate information, including on ESG issues, to enable investors to make informed investment decisions. When we have identified particular areas in which a company's disclosure is lacking or is of poor quality, we have raised this with the company and explained the importance to us of improved transparency. We agree with Michael Bloomberg, the Chair of the Task Force on Climate-related Financial Disclosures (TCFD), that 'increasing transparency makes markets more efficient and economies more stable and resilient'.[7] We have frequently supported shareholder resolutions focussed on increasing disclosure.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry

Ruffer engages regularly with the Investment Association and we respond to consultations on regulatory changes when these are relevant to us. We are a member of the Institutional Investors Group on Climate Change (IIGCC), which enables us to encourage public policies that address the long-term risks and opportunities associated with climate change. We currently receive ESG research from MSCI ESG Research and proxy voting research from Institutional Shareholder Services (ISS). We assess and review the research process and publications of these providers against ESG criteria. We are also active supporters of the Transition Pathway Initiative (TPI) and CDP (formerly Carbon Disclosure Project).

Principle 5: We will work together to enhance our effectiveness in implementing the Principles

Ruffer believes in collaborative engagement and so has been an active participant in a number of initiatives such as Climate Action 100+, to which we are a founding investor signatory. This collaborative initiative was launched on 12 December 2017 and is led by the IIGCC, the PRI and HSBC Global Asset Management. Through this five year global initiative, investors commit to engaging with companies to improve governance of climate change, reduce emissions and strengthen climate-related financial disclosures. The companies are among the most significant global emitters of greenhouse gases, based on direct and indirect (scope 1, 2 and 3) emissions data. At Ruffer, we believe it is important to encourage debate about broader concerns and therefore we host seminars on ESG topics.

Principle 6: We will each report on our activities and progress towards implementing the Principles

Since 2015 we have published an annual ESG report, which presents our approach to responsible investment and stewardship activities in detail. The report includes aggregated quantitative and qualitative voting data, detailed case studies in relation to our engagement activities, and an overview of the engagement themes that were prevalent throughout the year. Our research analysts contribute to the ESG report by presenting a selection of companies that have embedded ESG and corporate social responsibility into their business models. We also have an ESG policy, which provides additional information about how we incorporate ESG into our research and investment processes. This policy, and others including our climate change and voting policies, are publicly available at ruffer.co.uk. Ruffer can also provide clients with specific information on stewardship activities and our PRI Assessment Report, on request.

Company case studies

As an active investment manager, our in-house equity analysts play a crucial role in identifying companies for our clients' portfolios. We highlight some companies we currently hold in portfolios that we feel have interesting, innovative or impressive ESG credentials.[8]

This year we have included: the Ocado Group, an online grocery retailer, which is working towards reducing its food waste and carbon intensity; Gold Fields, a diversified gold producer, which is striving to improve its safety culture and reduce its environmental impact; Cigna, a healthcare insurance company, which is improving the cost efficiency of its insurance products and Toyota, a global automotive manufacturer, which has set an ambitious environmental action plan.

Ocado Group

Company overview

Ocado is the world's largest dedicated online grocery retailer.[9] It operates its own business in the UK under the Ocado.com banner. The company also leverages its platform and technology to operate Wm Morrison Supermarket's online business and has recently announced a number of licensing deals with international food retailers which will use its technology to operate their own online grocery businesses.

Ocado was formed in 2000 by Tim Steiner, the current CEO, with the aim of revolutionising the way customers shop for groceries. Having identified the internet as a platform for changing the way customers can access food retailing, the group has also reinvented large parts of the supply and logistics chain. This has been done to create an economic advantage as its business model is estimated to be 6%-9% more operationally efficient than the traditional food retail model.[10] Yet, the disruptive nature of the business model also gives rise to a number of ESG and corporate social responsibility (CSR) advantages that the company is pushing ahead with.

ESG

In conducting our research, we have had a number of discussions with Suzanne Westlake, head of Corporate Responsibility at Ocado. Suzanne and her team look at a wide range of issues in Ocado's business including carbon emissions and intensity, supply chain issues and the prevention of modern slavery.

In 2018, Ocado published its first Corporate Responsibility Report. This followed the launch of the group's corporate responsibility strategy ('The Ocado Way') in 2015.[11] The strategy is focussed on increasing education and road safety, and reducing carbon emissions, food waste and food poverty. Ocado's progress in this area has been well-received and, in 2017, Ocado won the CDP's Best First Time Responder Award for managing carbon efficiency.[12]

> Food poverty is the inability to afford, or to have access to, sufficient nutritious food to make up a healthy balanced diet.

Ocado believes that the centralised nature of its business model provides advantages in areas such as product waste, carbon emissions and plastics usage.

Food waste

Managing food waste is an important environmental and sustainability issue for the sector. Both the technology used and the centralised nature of Ocado's delivery model mean that products can arrive at one of its central

fulfilment centres (CFCs) and be out for delivery to customers within five hours.[13] As a result, Ocado only holds inventory based on customer orders – one day of inventory for chilled produce and three days for ambient.[14] This results in food wastage statistics that are better than the industry and also translates into a direct economic benefit for the company. Less than 0.017% – or 1 in 6,000 – of Ocado's food items goes to waste,[15] compared to 0.5% at Tesco's UK retail operations in 2017/2018.[16] Ocado also works with the Waste and Resources Action Programme charity,[17] which helps the company to reduce waste, develop sustainable products and use resources in an efficient way, as well as engaging policy makers to achieve systemic change.

Food waste and climate change: global food waste each year generates around 4.4 gigatonnes CO_2eq, or about 8% of total anthropogenic greenhouse gas emissions. This means that the contribution of food waste emissions to global warming is almost equivalent to that of global road transport emissions.[18]

Carbon emissions

The nature of Ocado's business makes it relatively energy-intensive – over 2,000 delivery vans that require refrigeration (which adds weight and increases power consumption) to keep the produce fresh, four large CFCs that require lighting, heating and refrigeration units and heavy goods vehicles (HGVs) to transport produce from the CFCs to 18 distribution hubs.[19] Fuel consumption by the delivery fleet remains the largest contributor, accounting for 66% of total emissions.[20] The group attempts to reduce these emissions through a combination of technology, its customer offering and equipment redesign. Ocado's UK retail business is growing at 10%-15% per year in volume terms and so absolute carbon emissions are increasing,[21] rising by 9.4% in 2017 compared with 2016.[22] However, energy intensity has been falling, and in 2017 was 27.6% below the 2013 base line measurement year.[23]

Measuring carbon intensity is not a straightforward exercise. Ocado's own data, according to Suzanne Westlake, is distorted by the pace of warehouse capacity increases. However, the group continues to report its carbon intensity and identify measures and changes to its operations to improve efficiency. These measures include –

1. Loki, the group's van routing software, makes around four million routing calculations per second to determine the quickest and most efficient route to the next delivery destination, thereby reducing mileage.[24] 'Green van' delivery slots enable customers to select deliveries from vans that are already scheduled to be in the customer's area. Due to this efficiency, an Ocado van delivers £1 million of goods during a year, compared with an industry average of £0.6 million.[25]

2. Future developments around driverless electric vehicles provide the prospect of reducing direct emissions further. In June 2018, Ocado concluded a trial in partnership with the GATEway Project, an £8 million research project led by the UK's Transport Research Laboratory, which used electric self-driving vehicles to deliver groceries to local residents in Greenwich, South East London.[26]

3. Ocado has invested in large double decker HGVs which distribute 12 van loads of orders from a CFC to a delivery hub. This compares with seven

van loads in single decker HGVs. 95% of orders from the CFC in Dordon are double deckers.[27]

4. Ocado has also announced it has invested £3 million to move its HGV fleet to natural gas. In early 2019, 29 vehicles, or 29% of the HGV fleet, will run on blended biomethane leading to a 99% reduction in emissions of particulates and 70% less nitrogen oxide.[28]

5. Electricity is the second largest contributor to group emissions, accounting for 25.6% of total emissions.[29] This is mainly attributed to the group's main CFCs, but changing lighting to LEDs at the group's Hatfield facility by the end of 2017 saved 1,677.3 tonnes of carbon per year.[30] Newer built CFCs are more energy efficient, with LED lighting and roller doors between chilled areas now fitted as standard.

Outlook: Ocado is exploring the introduction of science-based targets in order to align its business with the well below 2°C trajectory laid out in the Paris Agreement.

Science-based targets: targets adopted by a company to reduce its greenhouse gas emissions are considered science-based if they are in line with the level of decarbonisation required to achieve the goals of the Paris Agreement, to keep global temperature increase well below 2°C compared to pre-industrial temperatures.[31]

James Heal,
Research Director

James joined Ruffer in 2008, having previously worked at Lehman Brothers from 2005 to 2007, where he was Executive Director of the Long Term Value proprietary fund. James has spent most of his career analysing and investing in technology companies. Prior roles include Head of Technology Research at Commerzbank Securities, Director of Regional Asian Technology Research at Indosuez WI Carr Securities in Singapore and Head of Technology Research for ABN Amro Hoare Govett in London.

Gold Fields Limited

Company overview

Gold Fields was founded in 1887 and is a globally diversified gold producer with seven operating mines in Australia, Ghana, Peru and South Africa. Each year, Gold Fields produces around 2.2 million ounces of gold equivalents.[32]

ESG

Mining is fraught with ESG risks. Attention is commonly centred on issues around environmental protection, relations with employees and the impact on local communities. At Ruffer, we take a pragmatic approach to these issues – we acknowledge that mining is inherently risky, but believe that the right policies can lead to both a positive outcome for all stakeholders and a lower risk investment.

Gold Fields aspires to be the 'global leader in sustainable gold mining'.[33] Its focus is not on being the biggest, but rather the best operator. The company recognises that, to be sustainable, mining must entail value creation for a broad range of stakeholders including employees, communities and investors.

Environment

Gold Fields appreciates that its operations can have a material impact on the surrounding environment, and so its management of carbon, water and

tailings is important. During 2017, Gold Fields reused or recycled 57% of the water from its mining operations.[34] Our responsible investment team recognises that the company has strong environmental disclosure, using frameworks such as CDP (formerly Carbon Disclosure Project), which is important as it allows Ruffer to monitor the effect of Gold Fields' operations on the environment. The company has also made progress in increasing the proportion of its energy from renewables. Energy makes up 17% of its operational expenses and renewables help protect against oil price volatility as well as being more reliable than the local energy grid in some locations.[35]

Safety management

Gold Fields recognises the imperative of keeping employees safe. In the past, the company struggled with a reactive safety culture, especially in South Africa. However, recent changes have meant that the Total Recordable Injury Frequency Rate (TRIFR) has almost halved, from 4.14 incidents per million hours worked in 2013 to 2.42 in 2017.[36] This has been driven by the education of the workforce and revision of the company's occupational health and safety policy. In particular, Gold Fields has identified behaviour based safety programmes as a more effective way of embedding change in its day-to-day operations. Additionally, management incentives now contain a significant safety component.

Communities

Gold Fields is mindful of its 'social license to operate'. Across the industry, this concept has come into focus following countless examples of poorly managed community engagement. We consider Gold Fields constructive in how it provides value for the communities in which it operates. For example, in Ghana in 2017, 68% of the company's workforce was from local areas directly influenced by the mine and the Tarkwa Gold Fields schools complex supports more than 1,500 students.[37] Additionally, across the company, 94% of its procurement of goods and services ($1.75 billion) was from the countries of operation.[38] More anecdotal evidence demonstrates Gold Fields' proactive approach to community engagement: during a water contamination scare in one of its African sites, rather than wait for 'conclusive' evidence, the company immediately provided bottled water to the surrounding area to ease community concern.[39]

> A company has a social license to operate when it has the approval of its employees, the local community and other stakeholders to continue to operate in the region.

Paul Kennedy,
Research Director

Paul has been part of the Research team at Ruffer since 2012. He has many years of experience evaluating investments across industry sectors but has increasingly focussed on commodities. At Ruffer, he heads the team that covers commodity stocks and has managed the LF Ruffer Gold Fund since February 2015. Paul joined Ruffer from L.E.K. Consulting where he provided advice to the UK government in relation to energy policy and strategic advice to oil and gas companies, as part of a broader role. He has a degree in jurisprudence from Oxford University and an MBA with distinction from London Business School.

Cigna Corporation

Company overview

Cigna provides healthcare insurance in the US and health and disability insurance in emerging markets. The cost of healthcare in the US is high, with the per capita spend of $10,209 more than twice that of the UK's $4,246.[40] In addition, access to healthcare in the US is not free of charge unless someone is enrolled in government programmes such as Medicare (for people over 65 years of age) or Medicaid (for those with disabilities or with income below certain thresholds). Expensive healthcare is therefore a reality for most of the population. People have a choice: to risk living without insurance, or to take private healthcare insurance which can be costly (such as $6,896 for an individual and $19,616 for a family a year).[41] Before Obamacare became effective in 2014, 44 million Americans were living with no access to healthcare.[42] Obamacare expanded the coverage of healthcare through subsidised insurance, which helped to reduce the uninsured population to 28 million by the end of 2016.[43]

ESG

Healthcare costs

With such high healthcare costs in the US, Cigna's most significant business opportunity is to lower the cost of healthcare through improving efficiency. As this will increase affordability to individuals and increase access to healthcare, it also has wider benefits to society. Cigna has been a leader in bringing cost efficiency to US healthcare through its use of predictive behaviour analytics and collaborative relationships with physicians, which has resulted in the company achieving the industry leading Medical Cost Trend (MCT) for the last six years.[44]

> Medical Cost Trend (MCT) is a metric that measures the percentage increase in cost to treat patients from one year to the next, assuming that benefits remain the same.

In 2017, Cigna had a MCT of less than 3%,[45] versus an overall cost trend of 5.5% in the US.[46] Even though the cost trend at Cigna was significantly lower than the US industry average, it was still higher than inflation as measured by the overall consumer price index (CPI) of 2.1% in the US.[47] However, in 2018, Cigna announced a new and more ambitious internal target to deliver MCT in line with the CPI by 2021.

Opioid use

Overdosing on opioid drugs (prescription medicines containing morphine, usually prescribed for pain relief) is the leading cause of deaths from drug overdoses in the US. 72,306 Americans died from drug overdoses in 2017,[48] with prescription opioids accounting for 49,068 of these deaths.[49] Between 2002 and 2017, opioid-related deaths increased by 4.1 times.[50] Recognising the severity of the epidemic, in March 2018 Cigna announced a 25% reduction in opioid use among its customers, with the company reaching this target one year ahead of its initial goal.[51]

Health and wellness

Cigna has conducted several health and wellness programmes, including health improvement tours in 100 cities in the US. The company has offered over 10,000 free biometric screenings and has made 97% of its employees and their families tobacco free.[52]

Owing to such a strong emphasis on ESG, Cigna was upgraded to an A rating by MSCI ESG Research and named on the 100 Best Corporate Citizens List by Corporate Responsibility Magazine for the fourth consecutive year in 2018.[53]

Ruchir Asnani,
Research Director

Ruchir joined Ruffer in 2012. He previously worked for six years as an auditor with Deloitte and PricewaterhouseCoopers before working in a pan–European role in equity research at CFRA/Risk Metrics and for two years as a research analyst at AKO Capital. He graduated with a Masters in Business from Oxford University in 2007.

Toyota Motor Corporation

Company overview

Toyota is a global automotive manufacturer with sales of over 8.9 million vehicles in the 12 months to March 2018 across more than 90 countries.[54] The company is known for a number of things, but perhaps the most notable are its internationally respected manufacturing process ('The Toyota Way') and its hybrid vehicle technology.

ESG

Ever since the diesel emissions scandal, automotive companies are often viewed as not having strong ESG reputations. However, attitudes within the industry are changing. One could argue this has been consumer driven, but Toyota has also been proactively improving its activities in recent years.

In December 2017, Toyota announced an initiative dubbed the 'Toyota Environmental Challenge 2050'. Below are the company's six long-term goals[55]

1. Reduce global average CO_2 emissions during operation from new vehicles by 90% from Toyota's 2010 level
2. Eliminate all CO_2 emissions from the entire vehicle life cycle – this includes emissions associated with the production of the vehicle as well as those emitted during its time on the road
3. Achieve zero CO_2 emissions at all plants worldwide by 2050
4. Minimise water usage and implement water discharge management location by location
5. Promote end-of-life vehicle treatment and recycling technologies
6. Connect nature conservation activities around the globe

Toyota launched the world's first mass-produced hybrid passenger vehicle in 1997, the Prius. Since then, this model has been an ever increasing focus for the company with cumulative sales of over 12 million electrified vehicles globally by March 2018.[56] As a result, Toyota is considerably ahead of most other companies with regards to fleet carbon levels, with 13% less grams of CO_2 emitted/km versus the average of its global peers.[57] Alongside continuing to increase the sales of Prius models,

Toyota is building out its plug-in hybrid and fully electric vehicle offerings, as well as investing heavily in fuel cell technology. Whilst a reduction of 90% is clearly ambitious, it may not be wise to bet against a company with as strong a track record in innovation as Toyota.

During the Japan team's trip in December 2018, the analysts visited one of Toyota's main plants in Aichi prefecture, where they observed the 98% automated production line.[58] It was clear throughout the tour of the facilities the considerable lengths the company is taking to lessen the environmental impact of its plants. These measures range from some of the more standard, such as solar panels on the roofs and extensive treatment of waste water, to the more niche such as a special paint coating the inside of the factory walls, which improves air quality for workers. 2050 may seem like a long way off for the company's environmental challenge, but management has set regular shorter-term targets and continues to make incremental improvements – after all, that is 'The Toyota Way'. MSCI ESG Research recently upgraded the overall company rating, ranking Toyota's opportunities in clean technology in the top quartile of its industry peers.[59]

While the company is a leader in the environmental space, corporate governance is an area where Toyota could improve, in particular with regards to its group structure and its large and numerous cross-shareholdings. Japan has a long history of companies entwining themselves with other companies in their supply chain, known as *keiretsu*. This stemmed from the collapse of Japan's four major family-controlled monopolies, or *zaibatsu*, which dominated the industrialised economy prior to World War II. During the occupation of Japan, these commercial dynasties were forced to dissolve and cross-shareholdings became the preferred method of retaining inter-business relationships. Although there are undoubtedly some benefits of such an arrangement, in many cases the net effect is not optimal for shareholders. There is pressure building in Japan to reduce such cross-holdings, but it requires a cultural change which is unlikely to happen quickly.

Theo Wyld,
Research Associate

Theo graduated from Durham University in 2013 with a degree in mathematics. The following year he moved to New York City to complete a Master's degree in the Mathematics of Finance at Columbia University. After three and a half years as an equity analyst at JM Finn, he joined Ruffer in July. Since then he has been an equity analyst focussing on Japan. He has completed all three levels of the CFA exams.

Divestment and engagement: different shades of green

To divest, or to not to divest: that is the question. We discuss the options available to investors and present Ruffer's approach.

Introduction

Climate change has been debated at the highest levels for more than a quarter of a century, but more recently, there has been widespread acceptance of its existence. Arguably, one of the most important steps in achieving this was the Intergovernmental Panel on Climate Change (IPCC) report, released in November 2014, which concluded that climate warming is now 'unequivocal' and that human activity is 'extremely likely' to be the dominant cause.[60] Importantly, this report emphasised the link between greenhouse gas emissions and climate change. As the effects of greenhouse gas emissions are cumulative, persistent and not localised, it is fundamental that this issue is considered in a global context. The response needs to be international, and it must be based on a shared vision of long-term goals and agreed frameworks that will accelerate action over the next decade.

The ratification of the Paris Agreement, by 185 countries to date,[61] is an example of the co-operation required.[62] The first goal of the Paris Agreement is to limit the rise in global temperatures this century to, at most, 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C. To achieve this goal, greenhouse gas emissions need to be substantially reduced; much more needs to be done by governments and also by companies. Therefore, how companies are managing their greenhouse gas emissions has become fundamental to their long-term financial performance.

The IPCC report, released in October 2018, starkly laid out the likely consequences of global warming of 1.5°C and the additional damage that warming of 2°C could cause. According to the report, global temperatures have, on average, already risen 1°C above pre-industrial levels and are currently increasing at 0.2°C per decade. Therefore, it is likely that an increase of 1.5°C above pre-industrial levels will be reached between 2030 and 2052.[63] An increase of this extent will have considerable negative consequences around the world, from ice-free summers in the Arctic to species loss and extinction. Importantly, the magnitude of the environmental damage if temperatures rise to 2°C above pre-industrial levels is likely to be substantially worse.

The Paris Agreement requires each country to set out, in its Nationally Determined Contributions (NDCs), a commitment to reduce greenhouse gas emissions and how it intends to adapt to the impacts of climate change. Ruffer acknowledges that there are a diverse range of views on what greenhouse gas emissions reduction targets should be, but we expect that the NDCs will be tightened in 2023 to align with the pathway to meet the goals of the Paris Agreement.

Considering both the greenhouse gas emissions produced in the extraction, refining and processing of fossil fuels and the emissions released during combustion, the oil and gas industry is a significant contributor to global greenhouse gas emissions. As stewards of our clients' assets, it is our duty to take into account all investment risks, and consequently we are considering these issues seriously and incorporating these risks into both our macroeconomic and company analysis.

There are a number of different approaches that can be taken, reflecting the different backgrounds and beliefs of investors. Some argue that fossil fuel companies will never change their business models and so it is not possible to reconcile owning their

shares with a concern about climate change. Meanwhile others propose that by owning shares investors have the opportunity to influence these companies and be part of the transition necessary to achieve the goals of the Paris Agreement. And, of course, there are options that can combine these two approaches.

At Ruffer, we appreciate the importance of these decisions for investors. We explored this in a panel discussion on the merits of divestment and engagement at our Charity Conference in May 2018. We asked the audience some questions during the discussion to understand better what has driven their views and whether this has affected their investment decisions. A majority of the attendees responded that the values of their charities and their investment committees had driven discussions on fossil fuel investments.

We will discuss divestment and engagement in more detail below, and present Ruffer's approach and view of the role fossil fuel companies play in portfolios.

Divestment

Divestment is the act of selling the shares of a company in response to concerns over environmental, social, corporate governance or ethical issues. The main focus recently has been fossil fuel companies with investors having a wide variety of motivations.

The predominant argument in favour of divestment is that fossil fuel companies have known about climate change for many decades and if shareholder pressure has failed to change their approach over this time, it is not likely to be successful now. Fossil fuel companies began publicly accepting the occurrence of climate change and the link between greenhouse gas emissions and climate change in the 1990s, such as in the speech by John Browne at Stanford in 1997, when he was CEO of BP America. However, it seems that many fossil fuel companies were conducting their own research on climate change in the 1970s and 1980s and some might have found evidence that greenhouse gas emissions were the most likely cause. Whilst in possession of this and other scientific research, many companies continued to publicly deny climate change and this is used as evidence that they are not willing to change.

The second type of argument is based on the beliefs or values of investors. This can be driven by environmental or societal concerns, or religious values. Both the Church of England and the Catholic Church, through Pope Francis' encyclical Laudato Si, have stated the importance of addressing the moral issues, primarily concerning intergenerational justice, raised by climate change. Some investors have made the decision that continuing to invest in companies that have had such a significant impact on climate change is irreconcilable with their moral values.

The third type of argument is based on the economic risks of continuing to invest in fossil fuel companies. To achieve the goals of the Paris Agreement, society needs to reduce its emissions of greenhouse gases considerably and so it is likely that the consumption of fossil fuels will need to fall. Consequently, there is a risk that fossil fuel assets will not be able to earn an economic return for their entire useable life, and hence are often referred to as 'stranded assets'. This can happen for a number of reasons including regulatory, economic or physical changes and is particularly important for conventional fossil fuel assets due to the length of their useable lives.[64] These concerns are intensified by the legal risks to fossil fuel companies, as demonstrated by the on-going lawsuits in the US, and the risk of further intergovernmental responses.

While these arguments are all important and play a significant part in the debate about whether to continue to invest in fossil fuel companies, there are other factors that also need to be considered. Firstly, divestment is only possible once. While it can be used to make a statement which is likely to gain the attention of fossil fuel companies, once the shares have been sold, it is often no longer possible to be involved in discussions with these companies. Secondly, there is an argument that by selling the shares and depressing the share price, other investors without these concerns will be able to purchase shares at a lower price, allowing them to increase their profit while the business models of the companies remain unchanged. These are the main arguments in favour of engagement.

Engagement

Engagement is the process of continued dialogue with a company and other relevant parties with the aim of influencing their behaviour in relation to environmental, social or corporate governance practices. Investment managers and asset owners, along with many environmental groups, have been engaging with fossil fuel companies about climate change for a number of years. The concerns raised about the success of engagement with these companies cannot be dismissed. However, in the last few years there have been developments that suggest engagement could now be a powerful tool for effecting long-lasting change.

Firstly, as concerns about climate change have intensified around the world, the desire to engage with companies on these issues has grown. This has led to the launch of a number of shareholder initiatives, including most recently Climate Action 100+. Through this five-year global initiative, investors commit to engaging with the 100 largest corporate greenhouse gas emitters to improve their governance and disclosure and to reduce their emissions. At the end of December 2018, more than 320 investors representing over $32 trillion of assets had signed up.[65] The scale of this initiative gives considerable power to investors and most companies have so far responded positively. This creates a valuable opportunity to exert continued pressure on companies to align their business models in order to successfully transition to a low-carbon economy. Ruffer believes in the power of collaborative engagement and so has been an active participant in this and a number of other initiatives.[66]

Secondly, the support of organisations such as CDP (formerly Carbon Disclosure Project) and the Transition Pathway Initiative has given investors tools and quantitative analysis to use as the basis for meaningful engagement with companies.

Thirdly, academic research in this area has started to identify how to make engagement more successful and the mechanisms by which it can create value for both investors and companies.[67] A number of these findings have been incorporated into the structure of collaborative initiatives such as Climate Action 100+, and we are hopeful this will lead to increased success.

We are encouraged by the actions of some companies. For example, after increased shareholder engagement on climate change over the last few years, Royal Dutch Shell announced in November 2017 its commitment to reducing the net carbon footprint of its products by around 20% by 2035 and 50% by 2050.[68] In December 2018, after numerous discussions with investors, the company announced a further commitment to set short-term targets and link these to executive remuneration. This announcement was particularly heartening given the amount of progress made in a relatively short time, which gives us reason to be optimistic as to what

engagement could achieve at other companies in the coming years.

There will be some instances in which companies do not respond in the desired way to engagement. However, in this situation divestment is not the only option. Shareholder resolutions have been gaining increasing importance in recent years, most noticeably at ExxonMobil. In 2016, Ruffer voted for a climate change related shareholder resolution at ExxonMobil co-filed by the New York State Common Retirement Fund and the Church Commissioners for England. Although it failed to win the support of a majority of shareholders in 2016, a similar resolution was filed in 2017. The second resolution was successful, with 62.1% shareholder support, despite not receiving the backing of ExxonMobil's board.[69] The resolution asked the company to report annually on how technological advancement and international climate change policies focussed on keeping temperatures well below 2°C will affect its business and investment plans. This resolution led to ExxonMobil producing its first Energy and Carbon Summary Report in 2018 analysing scenarios that limit the increase in temperatures to 2°C, which has formed the basis for further engagement with the company.

Portfolio approach

At Ruffer, we have had periods with minimal or low exposure to fossil fuel companies, but at the moment we do hold a number of energy-related companies. This is based on a shorter-term view of a likely cyclical recovery in energy markets as supply and demand dynamics come back in line. Our investments are concentrated in companies that either offer high dividend yields, which we believe can be sustained at lower oil prices, or companies whose business models offer significant exposure to rising energy prices. These investments also have an important role in portfolios as they provide exposure to continued global economic growth and protection in the scenario we most fear: rising global inflationary pressures.

While we take very seriously the environmental concerns and work to systematically incorporate environmental, social and corporate governance considerations into our investment process for all companies, we think that fossil fuel companies will continue to provide a significant proportion of global energy for the foreseeable future and therefore will need to be part of the transition to a low-carbon economy. We believe that the current pace of this transition provides time for these companies to alter their business models, but we remain alert to changes in the pace of this transition.

The International Energy Agency's analysis and scenarios add weight to this argument. In 2016, 81% of world energy came from coal, oil and gas, while only 2% came from solar and wind.[70] Renewables are growing at a considerably faster rate than fossil fuels, but even in the most ambitious scenarios, which reach the goals of the Paris Agreement, oil and particularly gas will still provide a significant proportion of our energy globally in 2050. There are some areas in which it is incredibly difficult to substitute oil or gas for renewables, such as aircraft fuels and heat generation for manufacturing processes. In addition, oil is used as a feedstock in many other processes. This is why we think that engagement is so important, as we need to encourage these companies to adapt their business models and be a positive force for change.

Ruffer's ability to construct segregated portfolios gives us the flexibility to incorporate client-specific ethical investment restrictions into the management of portfolios. We currently use MSCI

ESG Research as our screening and research provider, and this allows us to include restrictions in relation to fossil fuel companies if desired. One advantage of a segregated portfolio is the transparency it provides, and this gives comfort to our clients that we are investing in line with their ethical investment restrictions.

At the end of the panel discussion at our 2018 Charity Conference, we asked the audience some additional questions. A majority of the respondents agreed that engagement can have a positive influence on companies and that an approach combining both divestment and engagement is most appropriate. These results confirmed to us that our current approach is in line with the views of our clients.

Conclusion

As we have discussed, our view is that investors do not need to choose either divestment or engagement, as there are ways to combine both approaches. Some investors have adopted the approach of committing to engage for a set number of years but if companies haven't achieved certain targets by the end of this period, they will divest. This approach can be particularly powerful if the time-line is shared with companies. However, the time taken to effect real change must be considered with some academic papers finding that engagement takes on average 1.5 years to be successful.[71] Another alternative is to divest from companies that extract oil from oil sands or produce thermal coal. These fossil fuel companies are among the worst carbon emitters and their products are much more carbon intensive than other types of oil and gas. In addition, the decision of whether to divest or engage does not have to be applied to the whole industry. There is dispersion in both the achievement and commitment of fossil fuel companies with regard to these changes, and so engagement is more likely to be successful with some than with others.

There are a number of alternatives available to investors, which can be tailored to their specific concerns. The pace of change in this area is exciting, and there is considerable momentum which has already led to some significant commitments by fossil fuel companies. There is still much work to be done, but we think that engagement through collaborative initiatives is the best way to encourage fossil fuel companies to adapt their business models to align with the transition to a low-carbon economy and achieve the goals of the Paris Agreement.

Corporate governance in Japan

Do events in 2018 demonstrate meaningful change?

2018 saw both another major corporate governance scandal and the revision of the corporate governance code in Japan. We discuss the areas in which significant change has been achieved, and those in which there is still more work to be done.

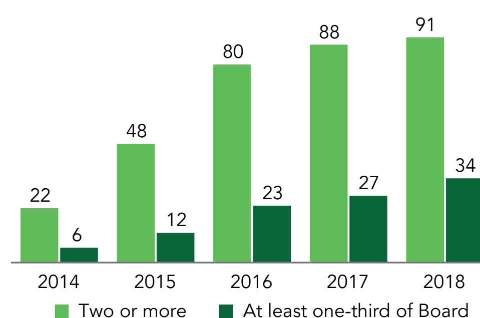
The corporate governance scandal that erupted at Nissan in 2018 captured headlines around the world and with memories of scandals at Toshiba and Kobe Steel still fresh in people's minds, led many to question whether anything had really changed in Japan. However, 2018 also saw the revision of the Japanese corporate governance code and a marked increase in support for shareholder proposals. Improving corporate governance in Japan has been a priority for the government in recent years, as a mechanism to enhance balance sheet efficiency and capital allocation decisions with the aim of increasing corporate value and ownership by foreign investors.

Ruffer has invested in Japanese companies for over a decade and good corporate governance practices are something we take seriously. While real change takes time, with inevitable setbacks along the way, we believe there has been a meaningful shift in Japan.

Following the introduction of the stewardship code in Japan in 2014, Japan's first corporate governance code was released on 1 June 2015 and revised on 1 June 2018. The code follows a principles-based approach, similar to the UK corporate governance code, where companies must comply with the principles set out in the code or provide an explanation for not doing so.

Improvements in corporate governance are undoubtedly difficult to measure, but recent trends in important indicators show progress has been made, albeit from a low starting point. Of all Japanese listed companies, the number with at least two independent directors has increased from 22% in 2014 to 91% in 2018, and companies where at least a third of the board are independent has increased from 6% to 34% over the same period.[72]

% of companies with independent directors



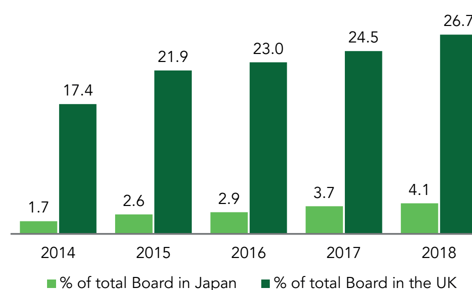
Source: TSE from Japan Exchange Group: Progress on Japanese Governance Reforms, p14

In most developed countries, it is expected that the majority of directors on a board are independent to provide a robust counter-balance to, and effective oversight of, management. However, the Japanese corporate governance code only recommends that

companies appoint at least two independent directors to the board, while acknowledging that if a company believes that having at least a third of its board made up of independent directors is beneficial, it should appoint them. This is still a long way off the expectations of other corporate governance codes, including the UK code, and what is considered best practice in many countries. Therefore, while there has been a considerable rise in the number of companies where at least a third of the board members are independent, we would hope this figure will continue to increase in the years ahead.

The reform of the corporate governance code in 2018 made more substantial amendments in a number of important areas. One of these is gender diversity, which is particularly important in Japan due to its population demographics: the country has the world's oldest and most rapidly shrinking population.[73] As the Japanese workforce is predicted to fall sharply in the next few decades, Prime Minister Abe has made female empowerment a priority since 2013 in his efforts to revitalise the Japanese economy. However, gender diversity continues to be an issue on boards, with the percentage of female directors increasing from just 1.7% in 2014 to 4.1% in 2018.[74] In response, the revised code specifically references gender diversity for the first time, as part of a broader push to increase diversity. Although the statistics are more encouraging when only the largest Japanese companies are considered, the chart below shows that much more still needs to be done and so investors, like us, should continue to put pressure on companies to do so.

Proportion of female directors



Source: Gender Equality Bureau from Japan Exchange Group: Progress on Japanese Governance Reforms, p42 and Hampton-Alexander Review, 2018 Report, p44. Proportion of listed companies in Japan and FTSE 350 companies in the UK

Another important area, which is of particular significance in Japan, is the continued existence of cross-shareholdings.

> Cross-shareholdings are the reciprocal holdings of equity positions which are often held to strengthen long-term business relationships between companies.

Of the companies in the MSCI ACWI index that hold cross-shareholdings, 72% are Japanese.[75] The revised code states that companies should now assess these holdings on an annual basis, taking into account their cost of capital. Including the cost of capital in the code has already had a marked effect on companies, moving it from a largely ignored concept to one in which most now recognise its significance. This has broader implications as research shows that it is a key area of importance for shareholders which has, until now, often been ignored by companies. This could therefore lead to the better alignment of management performance indicators in remuneration policies with investors' expectations in the future. 18 shareholder resolutions relating to capital efficiency were filed in Japan in 2018, a

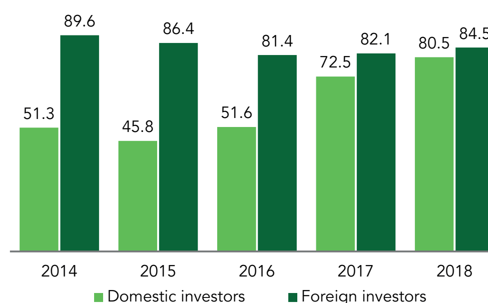
significant increase from 11 in 2017, demonstrating the importance of this issue to investors.[76]

Takeover defence measures, including 'poison pills', are still common in Japan.

Takeover defence measures can take a number of different forms. Often these measures allow the company to issue stock warrants, which have the effect of diluting the ownership of the company pursuing the hostile takeover. This makes a takeover more expensive and therefore reduces its likelihood.

Many of these controversial measures were instigated in response to the perceived threat of hostile takeovers from foreign companies in the middle of the last decade. However, consensus opinion has changed dramatically in recent years, initially led by foreign investors but more recently also supported by domestic investors. Their concerns are that these measures are not the best way to protect the interests of minority shareholders and instead are being used to protect underperforming management teams and therefore hinder the maximisation of corporate value. Initially, pressure was applied to put these measures to a shareholder vote on a regular basis, but feedback from investors also led to them being dropped by a number of companies, including Panasonic and Yamaha Motor. At Ruffer, we have engaged with a number of companies on this issue and have predominantly voted against takeover defence measures at company meetings. In order to strengthen our response to companies, we have recently updated our internal voting guidelines to state that, unless there is a compelling reason not to do so, we will vote against takeover defence measures.

Votes against management on takeover defence measures



Source: ICJ from Japan Exchange Group: Progress on Japanese Governance Reforms, p47

In conclusion, we have seen considerable progress in improving corporate governance practices in Japan in recent years, but there is still much to be done. We support the commitment of the Japanese government and others to the importance of corporate governance. We will continue to raise our concerns and stress the importance we attach to strong corporate governance practices in our engagement with companies, which will also inform our voting at company meetings.

Stewardship themes

At Ruffer, we take our stewardship responsibilities seriously as we believe this is an important part of our duty to our clients. Although we consider the ESG considerations of each company separately, each year there are themes, often reflecting industry trends, that influence our voting and engagement activities at a number of companies. In 2018, these themes were climate change and lobbying, specifically political contributions and trade association memberships.

Climate change

For companies that make a significant contribution to global greenhouse gas emissions, we are engaging with management to encourage them to adapt their business models to align with the transition to a low-carbon economy. We also appreciate the significance of discussing with these companies the importance of greater transparency with regards to climate-related disclosure as well as tangible targets for reducing greenhouse gas emissions.

As concerns about climate change have intensified, the desire to engage with companies on this issue has grown. Due to the scale and global nature of the problem, a number of shareholder initiatives, including Climate Action 100+, have been launched. We believe in the power of collaborative engagement and were a founding investor signatory to this initiative, as well as being a member of the Institutional Investor Group on Climate Change (IIGCC). By becoming a signatory to Climate Action 100+, we acknowledged in our sign-on statement, that we 'are aware of the risks climate change presents to our portfolios and asset values in the short, medium and long-term. We therefore support the Paris Agreement and the need for the world to transition to a lower carbon economy consistent with a goal of keeping the increase in global average temperature to well below 2°C above pre-industrial levels'.[77]

As part of Climate Action 100+, we are actively involved in the working groups engaging with a number of European and American companies. For those companies in which our clients' assets are invested that are not part of the Climate Action 100+ initiative, we are continuing to engage on a wide range of climate-related issues that we deem important.

We are supportive of the IIGCC's shareholder resolution subgroup and we think that shareholder resolutions are likely to have an increasingly important role to play in the years ahead. We see shareholder resolutions as a useful communication tool when engagement has not been successful as it gives companies a clear picture of the preferences of their shareholders.

Lobbying

When analysing a company, we think it is prudent to understand the internal governance processes around its political contributions and its trade association memberships. This is an important issue given the effectiveness of some trade associations in lobbying governments around the world, particularly in relation to climate change regulation. It is important to Ruffer that a company's policy on climate change is aligned with its lobbying activities and practices. In 2018, we engaged with several companies on increasing transparency around their lobbying activities. Specifically, we asked for public disclosure of political contributions and trade association memberships. We also voted for a number of shareholder resolutions asking for additional disclosure of lobbying-related activities.

Voting activities

The 2018 aggregated voting data presented here comprises our voting across Ruffer funds, institutional and private client holdings.

We act as stewards of our clients' assets and so it is our duty to ensure the companies in which we invest act in the long-term interests of their investors. In pursuit of this goal, we use our professional judgement to determine when to engage and how to vote at shareholder meetings to best protect the economic interest of our clients. Our policy with respect to voting reflects both our investment objectives and our approach.

Voting policy

We take the opportunity to vote seriously, as it enables us to encourage boards and management teams to consider and address areas that we are concerned about. It is Ruffer's policy to vote on Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) resolutions, including shareholder resolutions, as well as corporate actions. This policy applies unless voting is not in clients' best interests (for example, in markets where share blocking applies) or where, after due consideration, not casting a vote is the preferred course of action. Ruffer applies this policy across all shares held, both domestic and international, reflecting the global nature of our investment approach. The following chart shows votes by region.

Geographic distribution of meetings

Source: Ruffer LLP

Our voting activities have risen in line with the increasing integration of ESG into our investment approach. The number of company meetings we voted at has expanded significantly over the last few years: from 192 in 2016 to 273 in 2018, an increase of 42%.[78] Ruffer voted against management on 156 resolutions in 2018, compared with 74 in 2016, an increase both in absolute terms and as a proportion of votes cast.[79]

Voting process

Ruffer has internal voting guidelines as well as access to proxy voting research, currently from Institutional Shareholder Services (ISS), to assist the analysts in their assessment of resolutions and the identification of contentious issues. Although we are cognisant of proxy advisers' voting recommendations, we do not delegate or outsource our stewardship activities when deciding how to vote on our clients' shares.

Each research analyst is responsible, supported by our responsible investment team, for reviewing the relevant issues on a case-by-case basis and exercising their judgement, based upon their in-depth knowledge of the company. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer. We look to discuss with companies any relevant or material issue that could impact our investment. We will ask for additional information or an explanation, if necessary, to inform our voting discussions. If we decide to vote against management, we will endeavour to communicate this decision to the company before the vote along with our explanation for doing so.

Voting information

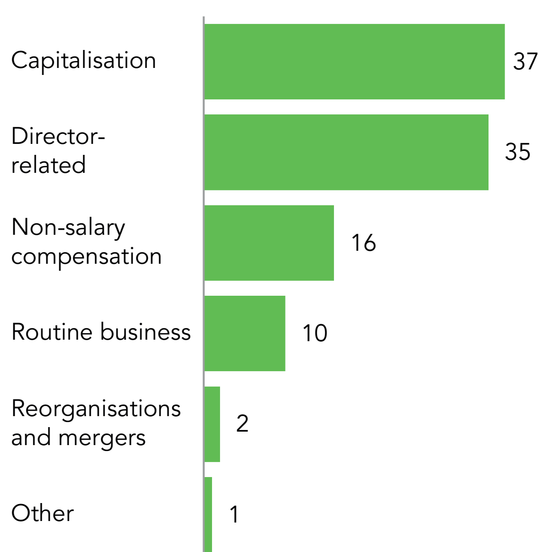
	2016	%	2017	%	2018	%
Number of meetings voted	192		233		273	
At least one vote against, withhold or abstain	33	17.2	52	22.3	60	22.0
Number of items voted	1,903		2,395		2,737	
For	1,817	95.5	2,235	93.3	2,585	94.4
Against	56	2.9	136	5.7	134	4.9
Abstain	30	1.6	24	1.0	18	0.7
Against management	74	3.9	107	4.4	156	5.7
Shareholder proposals	33	1.7	111	4.6	87	3.2

Source: Ruffer LLP

Analysis of votes against management in 2018

The chart below shows votes against management by type of resolution.

Votes against management



Source: Ruffer LLP

We voted against management predominately on issues relating to capital structure, directors' independence and remuneration policies and reports. These companies varied in size, sector and location from a US entertainment provider to a UK manufacturing company.

The independence and competence of directors was, once again, of considerable importance to us in 2018. Consequently, we voted against management on director-related issues at 18 companies. The corporate governance landscape has continued to evolve in Japan and one area of increased scrutiny this year was the independence of auditors.

Remuneration continued to be of interest around the world in 2018, particularly in the US where pay has traditionally been considerably higher than in the UK or, to an even greater extent, in Japan. One of the highest profile votes was at The Walt Disney Company, where we voted against the resolution to ratify executive officers' compensation. Although we value immensely the contribution that the CEO has made to the company, we felt the award was excessive and the requirements to achieve it were not stretching enough.

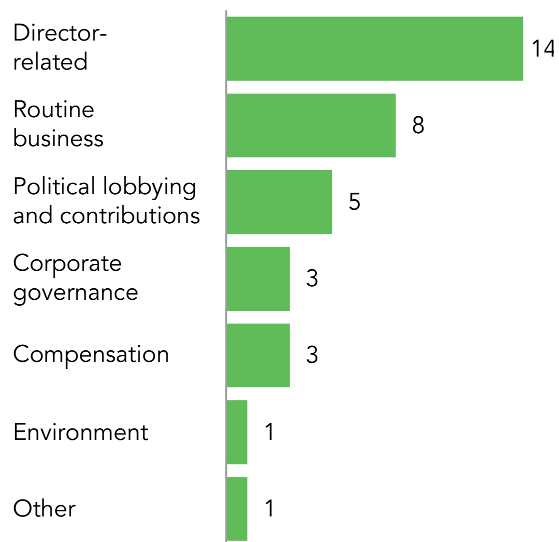
Voting for shareholder resolutions against management recommendations

There were a number of instances where we also voted for shareholder resolutions that company management had recommended voting against. As discussed in our stewardship themes for 2018, we engaged and voted on a number of shareholder resolutions requesting additional disclosure on political contributions and trade association memberships. At ExxonMobil's AGM in May, we supported a shareholder resolution voting against the recommendation of management to request additional disclosure of the company's lobbying-related expenditures and board-level oversight of this spending. We also voted against the recommendation of management at The Walt Disney Company's AGM in March and McKesson's AGM in July, supporting shareholder resolutions on improving disclosure and governance of lobbying-related expenditures. We believe it is important for investors to understand which organisations a company supports, and we will continue to put pressure on companies to improve disclosure and provide greater transparency to investors. We have incorporated this theme into our internal voting guidelines as we believe these disclosures enable us to make better investment decisions.

Other shareholder resolutions that Ruffer voted for were particularly focussed on director-related matters, such as asking for the removal of specific board members or the election of a shareholder nominee to the board. In Japan, Ruffer supported

shareholder resolutions focussed predominately on increased disclosure of executive compensation and the requirement to have an independent Chair of the Board.

Shareholder resolutions



Source: Ruffer LLP

Engagement activities

Ruffer believes that engagement is an effective tool to achieve meaningful change and we are committed to engaging with companies in which our clients' assets are invested on a wide range of topics. In this section, we highlight ESG engagements and, where possible, we have also shown the outcome or whether the issues are still under review.

Engagements by issue in 2018

	Environmental		Social		Governance			
Company	Climate change	Energy and/or water use	Indigenous rights	Workforce safety	Board effectiveness and structure	Remuneration	Cross-shareholdings and takeover defence measures	Lobbying
Dai-ichi Life					•			
Mitsubishi Estate					•	•	•	
Mizuho Financial							•	
Royal Dutch Shell	•							
HeidelbergCement			•					
Imperial Oil	•	•						•
BP	•							
Kao					•			
Eldorado Gold					•	•		
Wheaton Precious Metals					•	•		
Mitsubishi UFJ Financial					•		•	
Apergy	•							
National Oilwell Varco	•				•			
Tenaris SA	•							
Gold Fields		•		•				
Altia						•		
GRIT Real Estate					•	•		
ExxonMobil	•							
Fujitsu						•		
Mitsubishi Electric					•			
Ocado						•		

Source: Ruffer LLP

January to March 2018

Dai-ichi Life Holdings

Main activity
Life and health insurance

Issue
Governance – board effectiveness

We met with the company at Ruffer's office to discuss its progress on incorporating the Japanese corporate governance code. The meeting in January focussed particularly on board effectiveness and succession planning. The company is working on improving the diversity of its non-executive directors.

Mitsubishi Estate Company

Main activity
Real estate

Issues
Governance – remuneration and board effectiveness

We met with the company in January at Ruffer's office as part of its annual update on corporate governance issues. We discussed disclosure of and changes to its executive director remuneration and the independence of its directors.

Mizuho Financial Group

Main activity
Banking

Issues
Governance – cross-shareholdings

We spoke to the investor relations team in February to discuss the lack of progress in reducing the company's cross-shareholdings. The company had announced a plan to reduce these steadily over several years but the pace of the reductions had been far below that necessary to reach the target. We wanted additional information on whether the company was still committed to the target, which the company confirmed, noting the non-executive directors in particular want the targets to be met.

Royal Dutch Shell

Main activity
Integrated oil and gas

Issue
Environmental – climate change

We had a meeting in March with the Chair of Royal Dutch Shell, Chad Holliday, as part of the working group for Climate Action 100+. Mr Holliday spoke about the need for the company to deal with climate change. While the progress the company had made, including the commitment to significantly reduce the carbon intensity of its products, was praised, the meeting discussed how much more needs to be done. Specifically, the meeting focussed on the setting of short-term targets to reduce the company's emissions, allowing investors to assess its progress, and linking these targets to executive remuneration.

HeidelbergCement AG

Main activity
Construction materials

Issue
Social – indigenous rights

We engaged with HeidelbergCement about its operations in Western Sahara. We asked whether any progress was being made with regards to receiving consent from legitimate representatives of the people of Western Sahara. The company responded that it had published its human rights policy in early January 2018 and it had gathered input from a sustainability advisor in order to have a framework for evaluating the situation.

April to June 2018

Imperial Oil Limited

Main activity
Integrated oil and gas

Issues
Governance and environmental – political lobbying, water and climate change

We engaged with Imperial Oil in April ahead of its AGM and spoke with a number of executives, including the CEO. Two shareholder resolutions were filed in 2018 on which we requested additional information before making our decision.

When discussing the first resolution, on lobbying activity disclosure, we presented the benefits of increased transparency with regards to procedures governing lobbying activities as well as the company's donations, and its trade association memberships. The company explained that it is in the process of working on public transparency documents. As a follow-up the company sent a comprehensive list of trade associations that it supported in 2017.

With regards to the second resolution, on water-related risk disclosure, we discussed the CDP Water Information request in 2018. The company stressed that water is not a limited resource in Alberta and highlighted the work it had already done to reduce water usage. The company also raised concerns about the quality and robustness of the survey. We used this opportunity to discuss the importance of the survey to investors like Ruffer and the negative perception of the company due to it not completing the survey. Given the company said it had already collected the data, it was our view that the added benefits of disclosing this information would outweigh the negatives. The company seemed to accept this point of view. Consequently, we decided to vote against the resolution this year to give the company time to disclose this information but informed management that we would vote for a similar resolution next year if the company hadn't made sufficient progress.

BP

Main activity
Integrated oil and gas

Issue:
Environmental – climate change

A member of our responsible investment team was part of the group that made a statement at BP's AGM in May 2018 on behalf of Climate Action 100+. The group was specifically asking for additional information from the board about the methodology used to set BP's targets to reduce its operational emissions, particularly its methane emissions. Other issues raised focussed on the disclosure of the company's indirect greenhouse gas emissions, BP's support for third-party industry associations and a timeline for reporting that fully adopts the recommendations of the TCFD.

In answering our questions, BP stressed its commitment to make all energy cleaner and its new framework to reduce emissions, improve its products and create new low-carbon businesses which, importantly, has the full support of the board. In achieving this, BP also stressed its commitment to the Paris Agreement. As the board didn't provide much more information on the methodology used to set the targets, we will be following up with the company on this point. The board also stressed the work being done to improve the measurement of methane emissions to better understand the current level, before making further commitments.

Kao Corporation

Main activity
Household and consumer products

Issue
Governance – board structure

We met with two executives from Kao at Ruffer's office in May. The meeting was focussed on corporate governance, specifically the changes the company is making. The executives spoke about how historically ESG was viewed as a cost to the company, but is now seen as an opportunity. Kao still has a traditional Japanese board structure but is considering how to increase diversity on its board.

Eldorado Gold Corporation

Main activity
Gold mining

Issue
Governance – remuneration and board structure

We met with the Chair of the Board and the Chair of both the corporate governance and nominations committees to discuss the recent changes to the board following the failed 'say on pay' vote in 2017. The company has made considerable changes to the board and realigned its compensation parameters. The discussion focussed on remuneration and how the changes have improved board effectiveness. It was encouraging to see the scale of the improvement in a relatively short time.

July to September 2018

Wheaton Precious Metals Corporation

Main activity
Gold and silver streaming

Issue
Governance – remuneration and board structure

We met with the CFO of Wheaton Precious Metals, along with members of its investor relations team, in September. This followed a previous meeting in June 2018 where a number of ESG issues were discussed, such as the structure of the board and its commitment to responsible mining. At the September meeting, remuneration was discussed at length. Specific questions focussed on the criteria used to determine executive pay and how the long-term incentive plans are structured. The question of whether sustainability criteria are considered was touched on.

Mitsubishi UFJ Financial Group

Main activity
Banking

Issues
Governance – board structure and cross-shareholdings

We met with the Chair in July to discuss board composition and the company's cross-shareholdings. The majority of the board is now made up of independent directors and the remuneration of senior management has been aligned with increasing corporate value. The reduction of cross-shareholdings was also discussed and whether the remaining holdings cover the company's cost of capital.

Imperial Oil Limited

Main activity
Integrated oil and gas

Issues
Governance and environmental – political lobbying and climate change

We met with Imperial Oil in Calgary in September. This meeting was the result of a number of conversations with the company's management and investor relations team in April and focussed on the company's greenhouse gas emission reduction targets and forecasts of future oil demand. The governance of climate change risks, including whether appropriate processes are in place and improving disclosure was also discussed, with us stressing that the TCFD is our preferred framework.

We also wanted to understand the internal governance processes around the company's memberships of trade associations. We feel this is an important issue given the effectiveness of some trade associations in lobbying governments around the world, particularly in relation to climate change regulation. Due to our prominent role in

this working group, and the research we had done for the meeting, Ruffer is now co-leading this engagement for Climate Action 100+.

We will continue to engage with the company on these issues especially with regards to the company making its internal procedures and details of its trade association memberships publicly available on its website.

Apergy Corporation

Main activity
Oil services

Issue
Environmental – climate change

At the meeting in September, we asked Apergy whether it had analysed oil demand profiles that are consistent with meeting the goals of the Paris Agreement. The company responded that it uses the long-term energy insights models prepared by its research partner, McKinsey & Company, to form an opinion on the future state of the fossil fuel industry. The company believes the reason for the disconnect between the goals of the Paris Agreement and current growth in greenhouse gas emissions is due to increasing energy demand, particularly in emerging markets, coupled with steady population growth. The CEO, Soma Somasundaram, talked about the world's dependency on fossil fuels and how there needs to be a social shift, in addition to the significant developments needed in renewables technology. We also discussed his view on the timeframe of peak oil and the structural decline of the industry, which he believed to be between 20 and 30 years away.

The CEO described how Apergy's ESG department is working closely with its strategy team. For example, the company is focussing its research on reducing the energy required in the production of its diamond driller and increasing its productivity. The company reported it has achieved an increase in productivity by focussing on precision.

National Oilwell Varco

Main activity
Oil services

Issues
Environmental and governance – climate change and board structure

With regards to environmental considerations, the company has already committed to emission reductions, including the EU 2020 plan, and has aligned its practices with ISO standards. At a meeting in September, we asked the company whether it had analysed oil demand profiles that are consistent with meeting the goals of the Paris Agreement. The Head of Investor Relations, Loren Singletary, shared his personal opinion with us that hydrocarbons will be the largest part of the energy mix for at least the next 30-40 years. He added that the company is focussing mainly on improving energy and water efficiencies, as well as greenhouse gas emissions reductions which will also be beneficial for the company's bottom line. In addition, the company acquired a business to repair and build offshore wind turbines in Q2 2018 as it has identified technological synergies with the building of oil rigs.

The meeting also discussed other initiatives the company is implementing. For example, the company has formed a global energy team to perform energy audits on individual facilities. These energy audits have found multiple measures that can be taken to increase energy efficiency and reduce overall energy consumption and spending, as well as facility-specific reduction opportunities. Recommendations range from suggestions as simple as cleaning skylights to allow for brighter facilities and eliminating some artificial light use, to purchasing efficient heating, ventilation and air-conditioning units and improving process designs.

During the meeting, we also raised concerns about the board structure as four out of eight independent non-executive directors (NEDs) have served on the board for more than 13 years. The company stated that there are not currently any succession plans in place as three independent directors were appointed in the last two years and the longer serving NEDs are instrumental to decision making at board level.

Tenaris SA

Main activity
Oil services

Issue
Environmental – climate change

At a meeting in September, we asked Tenaris whether it had analysed oil demand profiles that are consistent with meeting the goals of the Paris Agreement. The company seemed only marginally concerned about the financial impact of the Paris Agreement on its core business and did not specify whether it had a view on when oil demand will peak. Despite this, the company mentioned during the meeting that renewables are a part of its strategy as its industrial business supplies companies in the wind power sector.

Raul Garcia, from the investor relations team, highlighted that its new steel mill, Bay City, is certified as low emissions and customers such as Chevron and ExxonMobil are requesting carbon emission reduction targets. This is particularly interesting as it means that these clients are calculating their scope 3 carbon emissions even though only a small number of companies currently report this information. Tenaris continues to participate in the World Steel Association's CO_2 data collection programme.

October to December 2018

Gold Fields Limited

Main activity
Gold mining

Issues
Social and environmental – workforce safety and energy consumption

We met Andrew Parsons, Vice President of Group Sustainable Development at Ruffer's office in October. We wanted to understand the work that Gold Fields has been doing over the last year to improve the safety of its workforce and reduce its energy consumption. Andrew spoke about how the industry has changed and that it is no longer acceptable for gold mining to be a dangerous activity. Gold Fields aims to have no life-changing injuries at its mines. With regards to energy consumption, its second largest cost, the company acknowledged the importance of reducing it both from an economic and environmental point of view. We discussed at length the measures being put in place to reduce energy consumption and how at a number of mines it is now more economical to use renewables than traditional sources of energy.

Mitsubishi Estate Company Limited

Main activity
Real estate

Issues
Governance – board structure, cross-shareholdings and takeover defence measure

We met with members of the investor relations team at our office in October. This followed a number of previous meetings where ESG issues were also discussed. This meeting focussed on the structure of the board and in particular our concerns about the independence of the audit committee, given that some members work at the company. We stressed how important it is that board committees are fully independent in order to provide effective oversight of management. We questioned the company about its commitment to further reduce its cross-shareholdings and the company reiterated its plan to reduce these over the next three years. We also discussed at length its takeover defence measure, a poison pill, as the company was considering whether to put this to shareholders at the 2019 AGM. We highlighted our concerns about this measure and informed the company that we would vote against it unless there was a very compelling reason not to, given our updated voting guidelines.

Altia Oyj

Main activity
Alcoholic drinks

Issue
Governance – remuneration

We have built up a strong relationship with management and met with the Chair of the Board to discuss a diverse set of governance matters. This included understanding how management is incentivised, in particular how the

company's long-term incentive plan is structured. We also discussed use of capital for acquisitions and the company's dividend policy. We participated in a perception study in October regarding its sales of alcohol, which the company had commissioned to better understand the views of its investors and other stakeholders. Our engagement with Altia is in its early stages, and we expect constructive discussions to continue.

GRIT Real Estate Income Group

Main activity
Real estate

Issue
Governance – board structure and effectiveness, remuneration

In the lead up to the AGM in November, we engaged with the company on the independence of a number of directors, the structure of the board and its remuneration policy. We had a discussion with the management team, including a meeting with the CEO and Head of Investor Relations, and received a detailed written response on all proposals. In particular, we had an in-depth discussion about a special resolution, on the issue of 'shares for cash'. We expressed our concern about the level of share issuance being proposed as a percentage of market capitalisation, which was considerably higher than best practice, and we initially voted against the resolution. However, following the discussion with us and other investors, the company submitted a change to the resolution and brought the level down to be in-line with best practice. Consequently, we changed our vote to support the resolution. We also encouraged the company to engage at this level of detail with ISS to make the voting analysis clearer in the future.

ExxonMobil Corporation

Main activity
Integrated oil and gas

Issue
Environmental – climate change

Ruffer participated in a Climate Action 100+ group meeting with ExxonMobil's corporate secretary, Neil Hansen, and several company representatives.

Issues reflecting the initiative's core objectives of improving governance, reducing emissions and increasing disclosure were addressed in a three hour meeting in Boston in November. On the governance of climate change risks and opportunities, we encouraged the company to disclose additional information on how the board is gathering relevant information, whether the topic of climate change is included as a key performance indicator to determine the CEO's pay and whether the company is intending to publicly support the TCFD. Another topic discussed at length was what procedures the company has in place to monitor its lobbying activity with regards to climate change.

In terms of improving disclosure, the group provided feedback specifically on the scenario analysis provided by ExxonMobil, including concerns about its reliance on the Stanford study rather than the International Energy Agency's scenarios. We highlighted that investors would also appreciate more detail on how scenarios would affect the company's assets, as this was particularly vague in the report.

Overall, we felt that the meeting was constructive. ExxonMobil however remained resistant to pressure to disclose targets to reduce its greenhouse gas emissions in line with the Paris Agreement, focussing on both the company's operations and its products. This caused the lead investors of the Climate Action 100+ working group for ExxonMobil, New York State Common Retirement Fund and the Church Commissioners for England, to file a shareholder resolution. The resolution asks ExxonMobil to disclose short, medium and long-term greenhouse gas targets that are aligned with the Paris Agreement. Importantly, this reporting should include information about the company's operations and its products. As we agree with the importance of this additional disclosure, we co-filed this resolution in December.

Fujitsu Limited

Main activity

Information and communications technology

Issue

Governance – remuneration

We met with the CFO in November where the company's strategy along with remuneration for senior management was discussed. In particular, the meeting focussed on the structure of senior management's pay, including how it will incentivise long-term value creation.

Mitsubishi Electric Corporation

Main activity

Electrical equipment

Issue

Governance – board structure

We met with the CFO in November to discuss the structure of the board. While most members of the board committees are independent, some of the chairs have connections to the company and we expressed our concern over this. We will follow up on these points at the next meeting.

Ocado Group

Main activity

Online grocery retailer

Issue

Governance – remuneration

We met with the Chair of the remuneration committee of Ocado at our office in November to discuss the remuneration policy the board is likely to propose at the 2019 annual general meeting. The current remuneration policy expires in May 2019. We discussed at length the complexities of designing a remuneration policy that motivates the management team to achieve the delivery of the strategy while also attracting new people to a growing global business, and on the quantum of the pay-outs in different performance scenarios.

Imperial Oil Limited

Main activity

Integrated oil and gas

Issues

Governance and environmental – political lobbying and climate change

Following the meeting with Imperial Oil in Calgary in September, we arranged a follow up call with the company in December along with other members of the Climate Action 100+ working group to discuss the progress made so far. We were encouraged that Imperial Oil had announced its intention to align board management oversight with the recommendations of the TCFD, however, the company stated it would not endorse the TCFD more formally at this point. We also followed up on the topic of political lobbying but there has not been much progress on this. We will continue to put pressure on the company to improve its disclosure of the organisations it supports and provide greater transparency to investors.

Glossary

Term	Definition
AGM	Annual General Meeting
Aiming for A	A collaborative shareholder engagement initiative on climate change; the 'A' in Aiming for A refers to the best A-E CDP performance band. Within the performance banding methodology, considerable weight is given to a company's management of its operational emissions as well as strategic and governance issues. These areas were covered in the resolutions filed at companies in 2015 and 2016
CDP	Formerly the Carbon Disclosure Project. A global disclosure system which provides investors with data on how companies, cities and states are managing their environmental impacts
Climate Action 100+	A five year initiative, launched in December 2017, to engage with the world's largest corporate greenhouse gas emitters. The initiative, which is led by investors, has three high-level goals on climate-related matters: to improve governance, reduce emissions and increase disclosure[80]
CO_2 eq	Carbon dioxide equivalence is a standard unit of measurement used to compare different greenhouse gas emissions based on their global warming potential
Cross-shareholdings	Cross-shareholdings are reciprocal holdings of equity positions, which are often held to strengthen long-term business relationships between companies
Divestment	The act of selling the shares of a company in response to concerns over environmental, social, corporate governance or ethical issues
DWP	Department for Work and Pensions (UK)
Engagement	The process of continued dialogue with a company and other relevant parties, with the aim of influencing their behaviour in relation to environmental, social or corporate governance practices
ESG	Environmental, social and corporate governance
EU Action Plan for Financing Sustainable Growth	In response to recommendations from the High-Level Expert Group on Sustainable Finance, the EU Commission launched the EU Action Plan for Financing Sustainable Growth. The plan outlines ten reforms in the three areas: reorienting capital flows towards sustainable investments; mainstreaming sustainability into risk management; fostering transparency and long-termism in financial and economic activity
Exclusion	An approach that restricts investment in certain sectors (such as the tobacco sector) or in companies based on specific criteria, such as a company which derives more than a specified percentage of its revenue from gambling activities
EGM	Extraordinary General Meeting

Term	Definition
Food poverty	The inability to afford, or not having access to, sufficient nutritious food to make up a healthy balanced diet
FSB	The Financial Stability Board is an international body that monitors and makes recommendations about the global financial system to promote international financial stability
Greenhouse gas emissions	The emission of gases which are capable of absorbing infrared radiation and therefore trap heat in the atmosphere and cause the warming of global temperatures. These emissions can be classified into scope 1 – direct emissions from the burning of fuels, scope 2 – indirect emission from electricity used and scope 3 – all other indirect emissions including upstream and downstream activities
GRI	The Global Reporting Initiative aims to improve and standardise the way businesses and governments communicate on issues such as climate change, human rights, governance and social well-being
HLEG	Established in 2016, the High-Level Expert Group on Sustainable Finance was set up to 'steer the flow of … capital toward sustainable investments',[81] among other goals
IIGCC	The Institutional Investors Group on Climate Change is a collaborative platform for European investors to encourage public policies, investment practices and corporate behaviour that address the long-term risks and opportunities associated with climate change
Integration	The systematic inclusion of environmental, social and corporate governance considerations into research and investment processes and investment decision making
ISO	The International Organization for Standardization
Just Transition	An investor statement presented at COP 24 (Conference of Parties) of the United Nations Climate Change Conference in December 2018 in Katowice, Poland. The statement reflects the commitment in the Paris Agreement that the transition to a low-carbon economy needs to be 'both fast and fair' for workers and communities. Ruffer is a signatory to this statement, which has so far attracted support from 100 investors representing $5 trillion in assets under management[82]
KPI	A Key Performance Indicator is a metric often used in remuneration policies to assess a company's performance against a set of targets or objectives
Life cycle analysis	Determines the environmental impact of a product through all stages, from its manufacture to its use and finally its disposal or recycling
METI	Ministry of Economy, Trade and Industry (Japan)
Natural capital	Usually defined as the world's stock of natural assets, such as air, water, soil and all living things, that combine to yield a flow of benefits to humans

Net carbon footprint	Total emissions from the consumption of energy products over their entire life cycle
Paris Agreement	A global agreement reached in December 2015 at COP 21 of the United Nations Climate Change Conference in Paris, and ratified in October 2016 with the aim of limiting the rise in the global average temperature this century to, at most, 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C
PRI	The Principles for Responsible Investment were launched in 2006. The principles are voluntary and provide a number of different ways to incorporate ESG into a signatory's investment approach. By becoming a signatory to the PRI, investors commit to the following – 1 We will incorporate ESG issues into investment analysis and decision making 2 We will be active owners and incorporate ESG issues into our ownership policies and practices 3 We will seek appropriate disclosure on ESG issues by the entities in which we invest 4 We will promote acceptance and implementation of the Principles within the investment industry 5 We will work together to enhance our effectiveness in implementing the Principles 6 We will each report on our activities and progress towards implementing the Principles Ruffer is a signatory to the PRI as part of our commitment to responsible investment
Responsible investment	At Ruffer, we interpret responsible investment to be the incorporation of ESG considerations throughout our research and investment processes while behaving as active stewards of our clients' assets
Scenario analysis	A process of examining and determining possible events by considering various potential results or outcomes. It is a key step to better understanding the potential implications of climate change on a company
Science-based targets	Targets adopted by a company to reduce its greenhouse gas emissions are considered 'science-based' if they are in line with the level of decarbonisation required to achieve the goals of the Paris Agreement to keep the global temperature increase well below 2°C compared to pre-industrial temperatures
Social license to operate	Exists when a company has the approval of its employees, the local community and other stakeholders to continue to operate in the region

Stewardship	Active engagement with a broad range of stakeholders and voting at company meetings on behalf of our clients
Stranded assets	Assets that will not be able to earn an economic return for their entire useable life. This can happen for a number of reasons including regulatory, economic or physical changes and is particularly important for conventional fossil fuel assets due to the length of their useable lives
SDGs	The Sustainable Development Goals are a set of 17 global goals with 169 targets, which were launched by the United Nations in September 2015. The goals form part of the '2030 Agenda for Sustainable Development'. The goals are contained in paragraph 54 of United Nations Resolution A/RES/70/1 of 25 September 2015
Takeover defence measures	These measures can take a number of different forms, one of which is referred to as a 'poison pill'. Often this allows a company to issue stock warrants at a discount which has the effect of diluting the ownership of the company pursuing the hostile takeover. This makes a takeover more expensive, and so reduces its likelihood
TCFD	The Task Force on Climate-related Financial Disclosures develops climate-related financial risk disclosures for companies to enable the provision of consistent data to a variety of stakeholders including investors, lenders and insurers
TPI	The Transition Pathway Initiative is an asset owner-led initiative which tracks and evaluates how companies are managing their greenhouse gas emissions, and the risks and opportunities arising from the transition to a low-carbon economy
UNEP FI	The United Nations Environment Programme – Finance Initiative is a partnership between United Nations Environment and the global financial sector set up after the 1992 Earth Summit to promote sustainable finance
UNGC	The United Nations Global Compact is an initiative to promote responsible corporate citizenship with ten principles on human rights, labour standards, the environment and anti-corruption

About Ruffer

Who we are

Ruffer is a privately-owned investment management firm. We look after investments for private clients, institutions and charities, in the UK and internationally. As at 31 December 2018, we manage over £20.9 billion and employ over 270 people, with offices in London, Edinburgh and Hong Kong.

Our investment approach

Our distinctive investment approach is focussed on delivering positive returns, regardless of how financial markets perform. Our two investment objectives are

- not to lose money in any rolling twelve-month period
- to grow funds at a higher rate than would be achieved by depositing them in cash

To do this, we conduct our own research, actively manage investments, and operate freely, without the restrictions that come from following benchmarks.

We invest predominantly in conventional assets as part of an investment approach that is conservative, tried and tested.

Since we started in 1994, we have broadly achieved our objectives, shielding our clients from the market crashes and generating returns well ahead of cash.

Looking ahead, if we can continue to meet our objectives over the medium-term, we will increase the real value of our clients' assets.

What's more, our returns should come with lower volatility and risk than an investment strategy invested mostly in equities.

How we invest

When creating portfolios for clients, we seek to strike a balance between investments that should prosper when financial markets are favourable and those that provide shelter during market downturns.

The investments we hold for favourable conditions are often equities, and we think of them as growth assets. Those providing shelter are our protective assets, and they are usually a combination of conventional and index–linked bonds, currencies, commodities and derivatives.

To avoid being dependent on the direction of markets, we always hold growth and protective assets alongside each other, varying the allocation to each over time.

Our investment team

Our investment strategy and asset allocation are set by Henry Maxey (Chief Investment Officer), Jonathan Ruffer (Chairman) and Jon Dye (Head of Research), with input from senior portfolio managers and our in-house researchers. This investment strategy team brings together a range of complementary skills and contrasting perspectives on the financial markets and the global economy.

When the asset allocation has been set, our research team finds appropriate securities to fulfil it. The team is given the task of finding the best investment opportunities from around the world and is not constrained by narrow sector or country boundaries. While many of the ideas flow from the asset allocation, some are stock-specific, when we identify an attractive, improving or undervalued company.

Contact us

Franziska Jahn-Madell
Director, Responsible Investment
fjahn-madell@ruffer.co.uk
+44 (0)20 7963 8200

Joined Ruffer in 2014 after working for 10 years at EIRIS, a research provider for environmental, social and governance performance, in several positions. Her last role as a Principal Research Analyst at EIRIS mainly focussed on corporate governance issues and criteria development. She graduated from Frankfurt University in 2003 with an MA in Theology and an MA in Literature.

Alexia Palacios
Analyst, Responsible Investment
apalacios@ruffer.co.uk
+44 (0)20 7963 8228

Joined Ruffer in 2014 after graduating from the University of Cambridge with first class honours in Land Economy. Having gained experience in responsible investment during the time she worked on Ruffer's charity team, she has specialised in this area since 2018. She has completed the PRI Academy Responsible Investment Essentials and Enhanced Financial Analysis courses and is a CFA charterholder.

ruffer.co.uk

Further information

The following documents are available at ruffer.co.uk

ESG policy

Voting policy

Our response to UK Stewardship Code

Our response to Japan Stewardship Code

Climate change framework

2015, 2016 and 2017 ESG reports

A selection of articles on ESG topics

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