Stewardship policy and response to the UK Stewardship Code

Introduction

This document describes Ruffer LLP's approach to Stewardship and in particular how policy and procedures meet the requirements of the UK Stewardship Code.

By its nature, the Code is focused on the UK therefore this policy is focused principally on our UK holdings. However, to the extent practical, we also adopt a similar philosophy to our investments in many other markets. In August 2015 we became signatory to the Japan Stewardship Code which we felt was significantly aligned with the UK Stewardship Code.

Key contact details are available at the end of this document should you have any questions on any aspects of our stewardship activities.

The UK Stewardship Code

In July 2010 the Financial Reporting Council (FRC) issued a statement of seven principles which set out good practice for institutional investors' engagement with investee companies. The principles state that institutional investors or their agents should

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities
2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed
3. Monitor their investee companies
4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value
5. Be willing to act collectively with other investors where appropriate
6. Have a clear policy on voting and disclosure of voting activity
7. Report periodically on their stewardship and voting activities

Ruffer's overall approach

Ruffer's policy with respect to responsible ownership reflects our singular investment approach as an active investment manager dedicated to absolute return investing. We invest globally in selected securities unconstrained by benchmark considerations. To that end fundamental securities research across global markets is crucial to our investment approach, as are regular meetings with company representatives. Continuous assessment of companies' strategy, performance and management is core to our stock selection with in-house expertise provided by our research team. We manage assets on behalf of both professional and retail clients.

Our policy with respect to responsible ownership reflects both our specific investment objectives and approach and the resources we can dedicate to these matters. Despite Ruffer remaining a modest sized institution within the context of global investment institutions, we devote considerable resource to investment research, monitoring and engagement with companies. We believe that stewardship is as much about responsible ownership as a considered approach to selecting companies. Ruffer's clients include corporate and public pension plans, insurance companies, collective investment schemes, foundations, charities and individuals. Some have expressed their views on corporate governance, while others have not. The one thing they all expect us to do is to protect and enhance their assets. 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. We may also engage with investee companies in response to specific concerns raised by clients. We actively seek to integrate environmental, social and corporate governance issues into our investment process. We believe that ESG factors are often a signal of management quality and lower risk for our clients.

Social responsibility

Ruffer believes that good practice by investee companies with regards to social, environmental and governance issues is likely to be consistent with good corporate performance. Where social, environmental and ethical issues are identified through the monitoring of investee companies, these are considered alongside other factors in determining the investment decision.

Where clients wish to impose restrictions on certain types of investment (eg alcohol, tobacco, armaments) the restrictions will be considered and agreed as appropriate.

Stewardship policy

Ruffer's stewardship policy aims to provide a pragmatic framework through which it can

- exercise its ownership responsibilities appropriately
- monitor companies in which Ruffer invests for its clients
- intervene with those companies, when necessary, on issues that are likely to impact the economic interest Ruffer's clients hold through their investments

The policy is also intended to be sufficiently wide-ranging to reflect Ruffer's global approach to investment and thereby operate consistently across all markets in which it invests for clients.

Ruffer supports the principles of the UK Stewardship Code and has responded accordingly in its statement on the Code which is detailed below.

Ruffer's response to the principles of the code

Ruffer supports the principles of the UK Stewardship Code as a guide for good practice engagement with our investee companies.

Principle 1

Investors should publicly disclose their policy on how they will discharge their stewardship responsibilities

Ruffer's approach

Ruffer's stewardship policy is described in this document which is available on our website, www.ruffer.co.uk.

We actively seek to integrate environmental, social and corporate governance issues into our investment process. We believe that ESG factors are often a signal of management quality, particularly over the long term. Ruffer follows a responsible investment approach by employing a dedicated manager for responsible investment and ESG issues. The ESG manager partners closely with analysts in Ruffer's Research Team to help raise awareness of potential risks, such as exposure to companies that are more likely to face litigation or reputational harm as a result of poor management of the impact of their operations on the environment or society. Ruffer uses ESG research provided by MSCI ESG Research to understand risks and opportunities at different stages in the investment process.

Engagement

Direct communication with a company is a fundamental part of Ruffer's investment effort. We believe the key to engagement is constructive communication. Engagement gives us an opportunity to improve our understanding of investee companies and their governance structures and to better inform our investment decisions. It also lets us share our philosophy and approach to investment and corporate governance with portfolio companies and enhance their understanding of our objectives. We engage in a constructive manner and our aim is to build mutual understanding, not to tell companies what to do. We meet with executives and board directors; we communicate with the company's advisors; and we engage with other shareholders where appropriate. We regularly monitor and engage with companies on matters such as, but not limited to, strategy, performance, risk, capital structure and ESG issues, including culture, board composition, succession planning, and remuneration, environmental and social responsibility that we perceive to affect their value.

Ruffer's resources used for each engagement will be managed according to the circumstances and potential impact of each case.

Intervention will generally begin with a process of enhancing our understanding of the company and helping the company to understand our position. The extent to which we would expect to effect change will depend on the specific situation.

Voting

Active stewardship enables investors to provide feedback to the board while encouraging board and management teams to consider and address investor concerns. We review local best practices and corporate governance codes when voting clients' shares, and actively consider companies' explanations for not complying with best practice to ensure we vote in the best interests of our clients. We will vote against a company's proposals if engagement fails to resolve our concerns. It is Ruffer's policy to vote on AGM, EGM resolutions and corporate actions where Ruffer's clients have a material interest in the company and/or the value of the holding is material to Ruffer's clients (unless voting is not in clients' best interests, eg in markets where share blocking applies or where, after due consideration, not casting a vote is the preferred course of action). Ruffer will normally vote on corporate actions where it is necessary to do so. Ruffer applies this policy across all shares held, both domestic and international, reflecting the global nature of its investment approach. Ruffer often votes in other circumstances if we deem it to be in our clients' best interest.

Principle 2

Investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed

Ruffer's approach

Ruffer is a partnership owned by directors and staff. As a privately owned company we are less susceptible to some of the conflicts of interests that arise from being publicly listed or having a parent company engaged in other activities.

Where conflicts of interest on voting or engagement exist between Ruffer, and/or a particular client and our wider client base, it is Ruffer's policy to act in the best interests of all our clients.

Conflicts or perceived conflicts of interest which could arise in the context of stewardship include where

- the interests of one client of Ruffer conflict with those of another client of Ruffer
- Ruffer has obtained restricted information relating to a client, a potential client, a former client or to publicly traded securities which would be of value to another part of Ruffer or to other clients of Ruffer.
- the interest of any employee or director of Ruffer conflicts with the interests of a client of Ruffer or the interests of Ruffer LLP itself.

Ruffer has a conflicts of interest policy which addresses how potential conflicts are identified, considered, managed and recorded. The policy forms part of each client's Investment Management Agreement.

The Compliance manual on conflict of interests includes how to record conflict of interest, the disclosure of conflicts of interest and escalations procedures. Whilst overall responsibility rests with the Management Board, the Compliance team is responsible for the ongoing maintenance, review and monitoring of the conflict of interest policy.

Should a conflict of interest arise, Ruffer will seek to manage it promptly and fairly.

Where a member of staff encounters a situation where they suspect a potential conflict of interest may exist, they should advice Compliance who will add it to the register including the measures to manage that conflict fairly and appropriately.

If the conflict is not specified in the conflicts of interest matrix or where Compliance believe the measures and procedures to manage that conflict of interest are inadequate, Compliance will advise on the course of action to be followed by the member of staff in the situation and consider whether the conflict should be added to the matrix.

Where the conflict of interest brought to Compliance's attention is material in nature, either by impact on the client or fund, potential value or potential reputational risk, Compliance will escalate it to the attention of the Executive Committee, which will then decide on the appropriate course of action.

The conflict of interest policy and procedures are reviewed on an annual basis by the Compliance department with assistance from other areas of the business as necessary. In addition, Ruffer has a detailed conflict of interest matrix which contains generic potential as well as actual conflict scenarios that we have identified and cross references them to specific policies and procedures.

The control framework outlined in the matrix is prepared and maintained by Compliance following discussions with the rest of the business, and is reviewed annually by Executive and Audit Committees.

Principle 3

Investors should monitor their investee companies

Ruffer's approach

All companies Ruffer invests in for its clients are monitored by analysts on Ruffer's research team. Ruffer typically has in excess of 1,500 meetings with companies each year. There is an ongoing programme of meetings with chairmen and non-executive directors. Discussions may include, but are not limited to, business strategy, acquisitions and disposals, capital raisings and financing operations, risk management, culture, board effectiveness and succession, shareholder rights, corporate responsibility, sustainability and remuneration.

Monitoring is oriented towards identifying potential problems at an early stage in order to minimise any loss of shareholder value by Ruffer's clients.

We monitor companies by

- engaging the board and senior management of investee companies directly, usually in 'one-to-one' meetings at Ruffer's or the company's offices
- studying of company statements and third-party reports
- attending public meetings
- meeting with advisors and sell-side analysts
- the use of screening tools to assess governance and related risk indicators
- ad hoc reviews on a company specific, sectoral or thematic basis
- monitoring of corporate developments through news flow, such as press articles and company announcements

Ruffer may, from time to time, choose to become an 'insider' when on consideration of the circumstances it considers it prudent to do so in the interest of good stewardship and our clients. Internal guidelines and procedures are applied where Ruffer becomes an insider which is part of Ruffer's market abuse policy (owned by Compliance). It includes details of the policies and procedures to follow if a member of staff comes into possession of inside information. Staff are trained on Ruffer's market abuse policies including on the definitions of inside information and what to do after being told inside information (whether it is flagged as such or otherwise). As soon as a member of staff comes into possession of information they report this to Compliance, who maintain the stop list. Compliance add the stock(s) to the stop list and relevant restrictions are added to the portfolio management system to block trading. Staff are prohibited from disclosing inside information to non-Ruffer personal and are only allowed to share with colleagues if it is necessary to carry out their duties as a Ruffer staff member (with Compliance being informed of such situations).

The decision as to whether we should become insiders (ie to be in receipt of non-public price-sensitive information on a company and hence unable to trade in the company's shares during that time) is taken on a case by case basis. As a general rule we are willing to be made insiders. However, we prefer to have a clear idea of when we will be released from being insiders and the information made public. Our preference is to be insiders for as short a time as possible.

When a security is added to our stop list, no fund manager is able to buy or sell the stock. This will also apply to personal dealing. Details of individuals to be contacted in such circumstances are provided at the end of this document.

The processes for monitoring, engaging and escalation are undertaken by Ruffer's research team and Ruffer's Manager – Responsible Investment and are overseen and monitored by the Investment Review Committee, which reports to Ruffer's Executive Committee.

Principle 4

Investors should establish clear guidelines on when and how they will escalate their stewardship activities

Ruffer's approach

When an issue is identified, Ruffer will usually raise it directly with the board or senior management of the investee company. Performance issues might be raised at the frequent one-to-one meetings with senior management, whereas governance issues might be more appropriately raised in separate meetings. These could be with executive or non-executive members of the board, as appropriate. If the outcome of this direct intervention is not satisfactory, Ruffer may consider further escalation within the board, the company's advisers, to other shareholders (see below) or, if necessary, to a general meeting of the company.

Our annual ESG report illustrates in case studies when stewardship activities were escalated.

It is practical and effective to consider measures where there is a meaningful shareholding in terms of issued share capital or a percentage of assets under management. However, engagement or escalation is not restricted to major holdings. Actions are considered and undertaken on the basis of protecting and enhancing client value and interest.

Ruffer will use different engagement tools when appropriate. However, we have a clear preference to conduct engagement on a confidential basis, to enable frank and forthright discussion to take place. The particular approach and avenue that will be taken will depend on the circumstances of each case and may change in light of progress or other developments

- additional meetings with company management and/or non-executive directors
- withholding support or voting against management
- collaboration with other investors (see Principle 5)
- requisitioning resolutions at an AGM
- divestment of shares

Principle 5

Investors should be willing to act collectively with other investors where appropriate

Ruffer's approach

Where it makes intervention more effective, Ruffer may engage with other shareholders in the investee company, either to decide or implement a course of intervention.

There are occasions when collaboration with other investors may be the most productive way to engage. This could be in situations where independent escalation has not produced a desirable outcome or during times of significant corporate or economic stress.

Ruffer is open to working alongside other organisations on both policy and company specific matters.

The decision to collaborate on company specific matters will be judged on a case by case basis by the Manager – Responsible Investment with consideration and input from analysts, fund managers and the legal or Compliance team.

Collective engagement can also provide a platform to engage on wider sector, regulatory and policy matters with investors and other stakeholders.

Ruffer engages regularly with the Investment Association and is a signatory of the United Nations Principles for Responsible Investment and the Carbon Disclosure Project (CDP) and the Institutional Investors Group for Climate Change (IIGCC).

At Ruffer we are supportive of the Aiming for A initiative that is redefining how investors and companies can work together to accelerate the transition to a low carbon economy. We co-filed a shareholder resolution at the Rio Tinto AGM in May 2016, for holdings in the common investment fund we manage. We co-filed the resolution together with over 100 investors in the Aiming for A coalition. The resolution includes commitments to reducing operational carbon emissions, maintaining a portfolio of assets resilient to future energy scenarios, and supporting low-carbon energy research and development. We also support the Transition Pathway Initiative and Climate Action 100+.

Ruffer's Manager – Responsible Investment engages regularly with formal and informal groups on ESG issues and facilitates Ruffer's involvement in collaborative engagements.

Principle 6

Investors should have a clear policy on voting and disclosure of voting activity

Ruffer's approach

It is Ruffer's policy to vote on AGM or EGM resolutions and corporate actions where at least one of the following materiality tests is met (unless voting is not in clients' best interests or where, after due consideration, not casting its vote is the preferred course of action)

- Ruffer's clients have a material interest in the company
- the value of the holding is material to Ruffer's clients

Ruffer applies this policy across all shares held, both domestic and international, reflecting the global nature of its investment approach.

Ruffer's voting policy is reviewed annually by the Manager – Responsible Investment.

Ruffer often votes in other circumstances if it deems it appropriate to do so.

In gathering information and making our final voting decisions, we place great value in engaging with companies and their advisers. Each analyst is responsible for reviewing the relevant corporate governance issues on a case-by-case basis and exercising their best judgement based upon their deep knowledge of the company. We view each proxy voting decision as an opportunity for analysts to gain additional insight into companies.

In forming our voting decision, we take into account any issues raised by our proxy voting research provider to assist in its assessment of company resolutions and identification of contentious issues. For proxy voting we receive research reports from ISS. For ESG research we subscribe to MSCI ESG Research.

Although we are cognisant of proxy advisers' voting recommendations, we do not delegate or outsource our stewardship activities when deciding how to vote our clients' shares.

Equally we do not automatically support boards. We would look to discuss with management any situation where we felt there was a relevant or material issue that could impact our investment in the company. In some situations this could lead to instances where we vote against management. In these circumstances it is likely that our intention would have been communicated prior to the vote being cast.

As we apply a case by case approach to voting decisions, our internal voting guidelines act only as a guide for analysts when thinking through the relevant corporate governance issues.

Ruffer's process for lodging proxy votes ensure all instructions are scrutinised by senior investment staff before submission. Where necessary, particularly contentious issues can be escalated to a member of Ruffer's Executive Committee for approval.

Voting records are made available to clients on request. It is not Ruffer's policy to disclose publicly its voting records in the same way it is not policy to disclose publicly its holdings (except where required to do so for regulatory purposes) as we regard this information as confidential. However, on our website we publicly disclose aggregated voting data in our annual ESG report analysing the number of against and abstain votes. We also disclose case studies on specific voting outcomes and corporate engagements pre AGM.

Ruffer does not participate in stock lending so recalling lent stock is not an issue, though some of its clients have chosen to do so through their custody arrangements. Where it is required to recall this stock, we would liaise with the client and custodian accordingly.

Principle 7

Investors should report periodically on their stewardship and voting activities

Ruffer's approach

Ruffer's stewardship activities, including monitoring and engagement with companies and voting activity, are clearly recorded.

Ruffer can provide clients with client-specific information on voting, engagement and stewardship activity on request.

Our standard reports include

- a statistical summary of the number and types of resolutions we have opposed
- a detailed report listing all the resolutions we voted on in client portfolios
- a summary of our engagement highlights and key ESG issues over a quarter

We also publish an annual ESG report, which showcases our stewardship activities in detail and is available on our website, www.ruffer.co.uk. The annual ESG reports includes aggregated quantitative and qualitative voting data, an analysis of our corporate engagement activities and an overview of engagement themes which were prevalent throughout the year, detailed case studies in relation to our corporate engagement as well as chapter on ESG topics. Our analysts contribute to the ESG report by presenting a selection of companies that have shown to embed ESG and corporate social responsibility (CSR) into their business model.

It is not Ruffer's policy to disclose publicly its voting records in the same way it is not our policy to disclose publicly its holdings (except where required to do so for regulatory purposes), as we regard this information as confidential. An internal audit evaluated our voting procedures and reported its findings to the Audit Committee. Additionally we review Ruffer's voting results on a quarterly basis. We currently regard these processes as sufficient but review the necessity of an external audit on an annual basis.

UN Principles for Responsible Investment

Ruffer supports and is a signatory to the UN Principles for Responsible Investment (UN PRI) as part of our approach to good stewardship. We believe that environmental, social and governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Therefore, where relevant, we commit to the following principles –

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

Contact us

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Further information

The following documents are available at www.ruffer.co.uk

Japan Stewardship Code

ESG policy

2016 ESG report

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