Responsible Investment Report

Q4 2022

Contents

Responsible investment at Ruffer

AT RUFFER, WE ARE COMMITTED TO BEING GOOD STEWARDS OF OUR CLIENTS' ASSETS.

To do that, and to generate good investment performance, we need to analyse environmental, social and governance (ESG) issues. They represent both sources of value and investment risks. Incorporating these considerations into our investment approach forms part of our responsibility to our clients.

Whether it's climate change or indigenous rights, executive pay or workforce safety, we believe our considered approach helps us make better investment decisions.

To the advantage of our clients' portfolios.
For the benefit of the companies we invest in.
And to the good of the environment and society.

HOW WE DO IT

INTEGRATION

ESG risks and opportunities are considered throughout our investment process

ENGAGEMENT

Directly engaging with companies is a part of our investment process

VOTING

Equity investing comes with rights and responsibilities

We take this seriously

We are signatories and supporters of

PRI Principles for Responsible Investment · IIGCC Institutional Investors Group on Climate Change · Climate Action 100+ Global Investors Driving Business Transition · Transition Pathway Initiative · CDP Disclosure Insight Action · IFRS Sustainability Alliance · Race to Zero · UK Stewardship Code

Overview of the quarter

AFTER A TORRID YEAR FOR INVESTORS, MARKETS RECOVERED SOME LOST GROUND IN THE FINAL QUARTER AS HOPES GREW THAT A PEAK IN INFLATION WOULD LEAD TO A SLOWER PACE OF INTEREST RATE RISES IN THE US. BY CONTRAST, THE PRICE OF OIL CONTINUED TO EASE FROM ITS STEEP PEAK AFTER RUSSIA'S INVASION OF UKRAINE IN FEBRUARY. HOWEVER, THE OIL PRICE IS LIKELY TO COME UNDER FURTHER UPWARD PRESSURE AS CHINA RELAXES ITS ZERO COVID APPROACH AND AS SUPPLY REMAINS CONSTRAINED FROM RUSSIA AND OTHER NON-WESTERN PRODUCERS.

As signatories of the Net Zero Asset Managers initiative, we have a strong focus on engaging with companies to support their efforts to reduce carbon emissions, and higher prices of fossil fuels are adding further impetus for businesses to develop innovative ways to achieve their reduction targets.

One industry which attracts a lot of criticism for its heavy emissions is aviation. We engaged with one of Europe's leading airlines, which is exploring both sustainable aviation fuel and more fuel efficient upgrades to its fleet. However, it is also important to gain a deep understanding of the regulatory background, as policymakers will be key to getting the industry's energy transition going in earnest.

But responsible investing is of course much broader than Net Zero, and we engaged with several other companies over the quarter on a variety of concerns. These included a Japanese precision machinery industry company, which we are encouraging to recruit more women into senior positions, and a multinational beauty business, with which we discussed topics ranging from sustainability and independent directors to raw materials sourcing and litigation risk. While engagement can take time to be effective, we were pleased with the constructive tone of all these discussions.

Stewardship activities in brief

COMPANY	SUMMARY
ACADEMEDIA	A meeting to show our support for a shareholder proposal to return capital to investors.
ARCELORMITTAL	A Climate Action 100+ group meeting focused on the latest Net Zero benchmark results and progress made with the Science Based Targets initiative on developing a methodology for the steel sector. We also discussed the Just Transition and climate policy advocacy.
BRICKABILITY GROUP	A discussion about the processes and controls the company has in place to oversee the financial risk posed by owning a number of subsidiaries.
CML MICROSYSTEMS	A meeting on the potential for returning capital to shareholders through a buyback.
COMET HOLDINGS	A series of meetings with management and the board to discuss capital allocation and to encourage the company to repurchase shares, given its strong mid-term outlook and robust balance sheet.
COTY	A follow-up meeting to commend progress made over the last year, as well as continuing discussions on compensation, disclosures and relationships with ESG ratings agencies.
DASSAULT AVIATION	A meeting on a number of ESG topics, including the company's focus on producing jets with a lower carbon footprint and the role sustainable aviation fuel will play in the transition, employee satisfaction and engagement with ESG ratings agencies.
DX GROUP	An opportunity to express our views on the succession plans for the CEO and the chair of the Board.

COMPANY	SUMMARY
EPWIN GROUP	A meeting with a non-executive director to discuss possible improvements to the structure of the Board.
EQUINOR	A meeting to discuss the company's energy transition plan, with a particular focus on its renewable energy and low-carbon solution pillars.
HAMAMATSU PHOTONICS	A meeting to communicate the rationale behind our votes at the upcoming AGM and to encourage further independence on the Board, as well as expressing concerns over the lack of statutory auditor independence.
KINOVO	With the current chair stepping down, we discussed the succession plans in place.
MERCIA ASSET MANAGEMENT	A meeting to discuss the company's capital structure and to weigh up whether a buyback would be sensible.
MITSUBISHI ELECTRIC	A meeting to discuss how we voted at the most recent AGM and to express our support for a refresh of the Board.
NEWCORE GOLD	A discussion on the board's strategic effectiveness when considering risk and ensuring alignment with shareholder interests.
NTT DATA	Whilst acknowledging that good progress had been made on corporate governance, we escalated our concerns over the independence of one of the Board directors.
RAISIO	A meeting with the chair to discuss a number of governance topics, including board diversity, executive remuneration and organisational structure and accountability.
RYANAIR	An introductory call to get a better understanding of the company's transition plan and potential areas of competitive advantage.

COMPANY	SUMMARY
SHIMADZU	A meeting to encourage a more ambitious target for women in management positions by March 2026.
SHIN-ETSU CHEMICAL	We reiterated our preference for the company to reduce its cross shareholdings.
VELOCYS	A meeting to discuss Board and management effectiveness.
4D PHARMA	An ongoing discussion with the CEO on strategic options for protecting shareholder value throughout the period the company was in administration.

Engagements in focus

RYANAIR

No sector will be able to hide from the energy transition. So, as an active, unconstrained manager, we have the responsibility to identify the companies likely to emerge as winners in each.

It will be equally important to assess whether companies' decarbonisation strategies are credible, achievable and effective. We are a signatory to the Net Zero Asset Managers initiative, and engaging with companies on this theme will play a key role in our stewardship activities for 2023.

One headwind to reducing carbon emissions to help limit global warming is the disconnect between supply and demand. Several sectors face a stalemate between suppliers waiting for robust demand and customers waiting for affordable solutions. With neither side willing to move first, both are left frustrated, and the planet is no better off. Part of our engagement strategy is to catalyse innovation and adoption of low-carbon solutions by building relationships with stakeholders across the ecosystem. Our aim is to align expectations and incentives, helping to bridge the gap and break abatement stalemates.

One area where we have started to focus our resources is the aviation industry, which is often painted as the pantomime villain of carbon emissions. It's no secret that planes are high emitters – in 2021, the sector was responsible for over 2% of global energy-related CO_2 emissions. Since the pandemic brought air traffic to a standstill, passenger travel has recovered to nearly two thirds of its previous level, and air cargo has surpassed its pre-covid peak. So the industry is poised to keep emitting significant levels of greenhouse gases unless structural progress can be made. Abatement technologies are in their infancy and, while they should address the issues aviation companies face, so-called green premiums and low volumes make these solutions expensive.

However, demand is growing. Airlines and logistics companies are upgrading their fleets to boost fuel efficiency and are signing deals with producers of sustainable aviation fuel as they focus on their 2030 emissions targets. Some fleet owners are even placing orders for electric aircraft. While this is all at very small scale relative to the demands of Net Zero, momentum is building.

Ryanair holds a market leading position in European short-haul travel. In our opinion, it is well placed to use its size and influence – not to mention its superior financial flexibility – to deliver on the aviation industry's transition objectives. We intend to build a long-term relationship with the company (and the wider industry) to gain a better understanding of the challenges and bottlenecks it faces in its pursuit of Net Zero. We began our engagement this quarter by meeting with Ryanair's director of sustainability and finance. We also attended the company's Sustainability Day, focused on the industry's pathway to Net Zero.

The airline industry faces a unique situation. Meaningful decarbonisation will require upgraded fleets and a switch to greener fuel. These abatement levers will depend on investments and innovations made by suppliers. However, given the industry's tight regulation and high green premiums, it will also be reliant on policymakers to start the energy transition in earnest. The objective of our initial meeting was to gain some visibility of key abatement parameters (some within the company's sphere of control, others dependent on regulators or suppliers) which could ultimately be translated into competitive advantages.

We aim to continue engaging with the ecosystem surrounding sustainable aviation fuel. This could lead to discussions on biomass, green hydrogen or even technological innovations. As the portfolio evolves, we may shift our focus and channel our engagements towards the relevant companies we hold.

Given the urgency of decarbonisation, and the stubborn technological challenges faced by hard-to-abate industries like aviation, we are on the look-out for first movers. These are companies that can lead their sector on the journey to Net Zero, forging a path that peers are forced to follow and thus building a lasting competitive advantage in the process. By engaging with companies in these sectors, we aim to leverage our in-depth understanding of every element of the value chain and drive real-world change.

In the last quarter of 2022, we met with Shimadzu, and one of the topics discussed was the company's low proportion of women in management positions.

Our initial concern was the company's target to increase the percentage of female workers in management positions to at least 6% (or 60 persons) by the end of March 2026. In the mid-term plan it published in 2021, Shimadzu committed to promoting diversity and inclusion and specifically set targets to maintain the percentage of women in full-time employment at 30% or more each year and to increase the ratio of male workers taking childcare leave to at least 30%. We expressed our belief that, over the given timeframe, the target set for women in management positions was not ambitious, and we probed for more details. The company clarified that the target relates to diversity within the Japan head office, where it currently has 30 women (4%) in managerial positions. Diversity in the domestic parts of the business lags the international divisions, and overall women make up 10% of Shimadzu's management positions.

We understand the challenges Shimadzu faces on diversity in the precision machinery industry but are encouraged to see that expanding into medical and pharmaceutical business lines has led to the recruitment of more female graduates. While acknowledging the smaller female talent pool in some industries in Japan, we made it clear that we take the issue very seriously and expect to see substantial progress in representation at senior levels of the business. We were reassured to learn that the company is focused on increasing the overall number of female employees across the entire business and that currently almost 30% of new graduates are women.

Given our focus on climate change and the energy transition, we contacted Equinor to refresh a dialogue on the company's energy transition plan and its various components.

The main aims of our initial meeting were to understand – specifically from a low emissions perspective – the company's criteria for expanding its operations internationally and to gauge its progress and opportunities in the renewables and low-carbon solutions space.

While Equinor produces oil at a much lower carbon intensity per barrel than the industry average, we expressed our concerns that increased exploration and production can more than offset a low-carbon intensity, resulting in higher carbon emissions in absolute terms. The company's overall production is projected to peak in 2026, before returning to current levels in 2030. But Equinor reiterated that, by moving away from volume towards value targets, it could focus on a low cost, low emissions, cash generating portfolio. Importantly, Equinor's experience with electrification, offshore floating wind and carbon capture and storage puts it in good stead when expanding these technologies internationally.

Equinor has continued to expand in both renewables and low-carbon solutions. We have seen tangible progress in offshore floating wind, with a new lease awarded outside the North Sea region. We will follow how the company manages to leverage such value creation opportunities. Similarly, Equinor's deal with Yara, a European agrichemicals company, to transport and store part of Yara's operational emissions off the coast of Norway highlights a milestone for the company's carbon capture and storage ambitions. Whilst noting that government subsidies are still crucial, we are encouraged by Equinor's commitment to building out these operations and look forward to seeing the next milestones reached.

Following our introductory call with Coty in December 2021, we met with the company again for a progress update.

Previously, we had emphasised the importance of having a Board member accountable for sustainability, so we were pleased that the Board is providing oversight to the sustainability strategy, with Anna Makanju shouldering this responsibility as part of her role on the Board. The firmwide focus on sustainability is reinforced through the hiring of a new chief scientific officer and sustainability leader, as well as a new chief supply chain officer.

Coty is going through a major restructuring under a promising new CEO in a volatile macro environment. Whilst we understand the need for a balance between retaining institutional knowledge and introducing fresh ideas, we reiterated our views that Board members should be properly independent and their tenure should not be unlimited. We asked again about linking compensation to ESG related metrics, and we understand the company expects that incoming disclosure requirements on pay will provoke debate on performance metrics. Coty reassured us this is being actively discussed for implementation as the business executes its restructuring plan under the new management.

Coty's poor MSCI ESG rating was one of the initial reasons for engaging, and we were pleased the company has been upgraded since our last meeting. There is still room for improvement, but we can see the effort Coty has put into engaging with ratings agencies such as MSCI and Sustainalytics. We took the opportunity to encourage more disclosure, to benefit the company's assessment by such agencies. Coty recognises the need and will be launching a new website as a disclosure hub.

The rest of the meeting touched on a number of environmental and social topics, including emissions reduction targets, raw materials sourcing and litigation risk. Coty has already surpassed its 2030 Scope 1 and 2 reduction target. Overall, we are pleased by the achievements on each of these fronts and look forward to seeing further progress.

About Ruffer

OUR AIM IS TO DELIVER GOOD POSITIVE RETURNS – WHATEVER HAPPENS IN FINANCIAL MARKETS.

To invest well, we need to take on risk. With risk comes great responsibility. Our preoccupation is with not losing money, rather than charging headlong for growth. It's by putting safety first that we have made good money for our clients. Through boom and bust. For over 27 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value substantially.

We believe that investing responsibly will lead to better long-term outcomes for our clients.

ESG factors form one part of our fundamental analysis. We have a collaborative research process between the research analysts, members of the responsible investment team, and responsible investment specialists. To fulfil our duty to act as responsible stewards of our clients' assets, we use our judgement to determine when to engage and how to vote at shareholder meetings to best protect the economic interests of our clients, while remaining cognisant of the impact on all stakeholders. Engagement with the companies we invest in not only gives us an opportunity to deepen our understanding of the business, but also is an effective tool to achieve meaningful change.

OUR RESPONSIBLE INVESTMENT FRAMEWORK