Response to Japan's Stewardship Code

INTRODUCTION

This document describes how Ruffer's policies and procedures meet the requirements of Japan's Stewardship Code. Further details about Ruffer's approach can be found in our Stewardship and Responsible Investment Policy, available at ruffer.co.uk/responsible-investing

JAPAN'S STEWARDSHIP CODE

In February 2014, the Council of Experts Concerning the Japanese Version of the Stewardship Code issued a statement of seven principles which set out good practice for institutional investors' engagement with investee companies. It was last revised on 24 March 2020, with a minor amendment of the seventh principle and the addition of the eighth. The principles state that

1. Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it
2. Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it
3. Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies
4. Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies
5. Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies
6. Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries
7. To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies
8. Service providers for institutional investors should endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfil their stewardship responsibilities

Ruffer's response to the principles of the Code

Ruffer supports the principles of Japan's Stewardship Code as a guide for good practice engagement with our investee companies. Japan's Stewardship Code is broadly compatible with our stewardship policy.

PRINCIPLE 1

Institutional investors should have a clear policy on how they fulfil their stewardship responsibilities, and publicly disclose it.

Ruffer's approach

Ruffer's Stewardship and Responsible Investment Policy sets out our approach to integrating environmental, social and governance (ESG) considerations into the assets we manage on behalf of our clients and investors. At Ruffer, stewardship activities include engagement (individual or collaborative engagement, with escalation if required), proxy voting and, for protection strategies, manager selection and oversight. This document has been made available to the Financial Services Agency (FSA), Japan. The policy applies, except where stated, to all funds and entities managed by Ruffer LLP on behalf of its clients and investors.

We believe that stewardship is as much about responsible ownership as it is about a considered approach to selecting which companies to invest in. 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. To that end, we use our judgement to determine when to engage and how to vote at shareholder meetings to best protect the interests of our clients while recognising the impact on all stakeholders. We may also engage with investee companies in response to specific concerns raised by clients.

PRINCIPLE 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

Ruffer's approach

Ruffer is a partnership owned by its directors and staff. As a result, 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, our policy is 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 current, potential or 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

Should a conflict of interest arise, Ruffer will seek to manage it promptly and fairly. The firm 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 and is available upon request.

Whilst overall responsibility rests with the Management Board, the Compliance team is responsible for the maintenance, review and monitoring of the policy. The team reviews the policy and procedures annually, helped by 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, cross-referenced to specific policies and procedures. The firm's Compliance manual details how to record, disclose or escalate conflicts of interest. If a member of staff encounters a situation where they suspect a potential conflict of interest, they should advise Compliance, who will add it to the register and outline the measures to manage that conflict fairly and appropriately.

If the conflict is not specified in the conflicts of interest matrix or if Compliance believe the measures and procedures to manage that conflict of interest are inadequate, Compliance will advise the member of staff what to do and will consider whether the conflict should be added to the matrix.

Where the conflict of interest could have a material impact on the client or the fund or is of large potential value or reputational risk, Compliance will escalate it to the Executive Committee, which will decide on the appropriate course of action.

The control framework outlined in the matrix is prepared and maintained by Compliance after discussions with the rest of the business and is reviewed annually by the Risk Committee, Executive Committee and relevant Ruffer LLP subsidiary boards.

PRINCIPLE 3

Institutional investors should monitor investee companies so that they can appropriately fulfil their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

Ruffer's approach

Ruffer has a collaborative research process, with ESG factors forming a core part of our fundamental analysis. Although Ruffer is a modest size relative to many global investment institutions, we devote considerable resource to investment research, monitoring and engagement with companies.

We draw qualitative and quantitative considerations from both internal and external research and formal and informal data sources to form our investment thesis for any company. Throughout our holding period, the Research Analyst is responsible for keeping ESG considerations under review and for proxy voting at company Annual General Meetings (AGMs) or Extraordinary General Meetings (EGMs).

Ruffer typically has over 1,500 meetings with companies from many different regions each year. Discussions may include 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

The processes for monitoring, engaging and escalation are undertaken by Ruffer's Research and Responsible Investment teams, with the help of ESG specialists, and are overseen and monitored by the Investment Review Committee, which reports to the Executive Committee.

From time to time, Ruffer may choose to become an 'insider' – that is, to be in receipt of non-public price sensitive information on a company and so to be unable to trade in the company's shares during that time. We will take that decision only after considering the circumstances and finding that it's prudent to do so in the interests of both good stewardship and our clients.

In such cases, we apply internal guidelines and procedures, which are part of Ruffer's market abuse policy (owned by Compliance). All staff are trained on Ruffer's market abuse policies, including the definitions of inside information. As soon as a member of staff comes into possession of inside information (whether or not it is flagged as such), they should report it 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 anyone outside Ruffer and are only allowed to share with colleagues if it is necessary to carry out their duties for the firm (when they must inform Compliance).

The decision whether we should become insiders is taken case by case. In general, we are willing to be made insiders, however, our preference is to be insiders for as short a time as possible. We try to get a clear idea of when the information will be made public and we will be released from being insiders.

When a security is added to our stop list, no fund manager can buy or sell the stock. This will also apply to personal dealing.

PRINCIPLE 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

Ruffer's approach

Ruffer believes that engagement is an effective tool for achieving meaningful change, and we are committed to engaging with companies on a wide range of topics. We encourage management to adopt appropriate policies, activities and disclosure in line with established best practices. We believe the key to engagement is constructive communication.

We use our judgement to determine when to engage to best protect the interests of our clients and investors while recognising the impact on all stakeholders. We prioritise engagement where we have identified material financial, reputational or regulatory risks. Interactions typically involve a combination of face-to-face meetings, video calls, telephone calls and written communication.

When an ESG issue is identified, we usually raise it directly with the company.

Engagement helps us 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, thus enhancing 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 regularly monitor and engage with companies on matters that we perceive to affect their value, such as strategy, performance, risk, capital structure and ESG issues, including culture, board composition, succession planning, remuneration, environmental and social responsibility.

We monitor our engagement activities with companies and, if not satisfied with the outcome, may use a variety of methods to achieve our objectives, including individual meetings

- collaborative meetings
- withholding support or voting against management
- making statements at AGMs
- co-filing a shareholder resolution

The approach taken depends on the circumstances of each case and may change based upon progress towards engagement objectives or other developments or shifting priorities. The frequency of interaction varies depending on the status of each engagement and the company's willingness to engage.

In some instances, we believe collaboration with other investors may be the most productive way of engaging to produce the desired outcome, particularly if our concerns are shared or individual engagement has not been successful. Collaborative engagement can also provide a platform to engage on wider sector, regulatory and policy matters with investors and other stakeholders. Decisions to collaborate on company-specific matters are judged case by case by the Responsible Investment Committee, with input from the Responsible Investment team, Research Analysts and Investment Managers.

Ruffer's Responsible Investment team engages regularly with formal and informal groups on ESG issues and facilitates Ruffer's involvement in collaborative engagements. For example, we support Climate Action 100+, the Transition Pathway Initiative, the Investor Mining and Tailings Safety Initiative and the Net Zero Asset Managers initiative.

Our annual Stewardship Report illustrates our engagement activities and includes examples of where escalation has occurred. As part of our commitment to the Institutional Investor Group on Climate Change (IIGCC) and the Principles for Responsible Investment (PRI), we have had discussions with a variety of stakeholders through industry initiatives, including policymakers, non-governmental organisations (NGOs) and think tanks.

PRINCIPLE 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist; it should be designed to contribute to the sustainable growth of investee companies.

Ruffer's approach

We take our voting responsibilities seriously. We review relevant issues and exercise our judgement where necessary, based on our in-depth knowledge of each company. The opportunity to vote enables us to encourage boards and management teams to consider and address areas we are concerned about or want to support.

We vote on our total shareholding of the companies held within our flagship funds. Voting on companies not held within these funds is subject to materiality considerations. Ruffer's policy is to vote on AGM and EGM resolutions, including shareholder resolutions and corporate actions. This is applied to both domestic and international shares, reflecting the global nature of our investment approach. We try to vote on most holdings, but we will not vote when it is in our clients' and investors' best interests (for example, in markets where share blocking applies).

We exercise voting rights on holdings in funds and client portfolios in line with Ruffer's voting policy unless we are explicitly instructed to take alternative action. We may facilitate clients' voting instructions on both segregated and pooled accounts, if we have sufficient administrative capacity and explicit client authorisation.

Ruffer has an internal voting policy that applies when we instruct a vote unless a client has specified their own voting policy, or we do not have the authority to vote. The policy applies across all regions on a 'comply or explain' basis. In certain company-specific circumstances, we may deviate from our voting policy.

To ensure that we act in the best interests of our clients and investors, we review local best practices and corporate governance codes. Where companies do not comply with best practice, we consider their explanations before voting on our shares. We have developed an integrated voting platform linked to proxy voting research, currently provided by Institutional Shareholder Services (ISS), to assist in the assessment of resolutions and the identification of contentious issues. Although we acknowledge proxy advisers' voting recommendations, we generally do not delegate or outsource our stewardship activities when deciding how to vote on our clients' or investors' shares. Research Analysts are responsible, supported by our Responsible Investment team, for reviewing the relevant issues case by case and exercising their judgement, based on their in-depth knowledge of the company. We look to discuss with companies any relevant or material issue that could impact our investment. We ask for additional information or an explanation to inform our voting discussions.

Our voting activities can be found in our quarterly and annual stewardship reports.

PRINCIPLE 6

Institutional investors in principle should report periodically on how they fulfil their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

Ruffer's approach

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

On request, we can provide clients with client-specific information on voting and engagement activities.

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 a client's portfolio
- a summary of our engagement highlights and key ESG issues over a quarter

We also publish quarterly and annual reports which showcase our stewardship activities in detail and are available on our website. The annual Stewardship Report includes aggregated quantitative and qualitative voting data, an analysis of our engagement activities and an overview of engagement themes which were prevalent throughout the year. Our Research and Responsible Investment teams contribute to the report by detailing their stewardship activities.

All voting decisions for our flagship funds are disclosed annually on the Responsible Investing section of our website.

Ruffer does not participate in stock lending, so recalling lent stock is not an issue, though some of our 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.

PRINCIPLE 7

To contribute positively to the sustainable growth of investee companies, institutional investors should have in-depth knowledge of the investee companies and their business environment and develop skills and resources needed to appropriately engage with the companies and to make proper judgments in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

Ruffer's approach

Ruffer has a long track record of investing in the Japanese market on behalf of our clients, and our fund managers and analysts have a wealth of experience of engaging with Japanese companies.

As an absolute return manager with a relatively concentrated portfolio of equity holdings, we work to understand a company's or sovereign government's risks and opportunities. This information should enhance our investment decision making and risk management of portfolios and help us to identify key areas for engagement with both companies and policymakers. We believe ESG considerations are potential contributors to investment performance, representing sources of both value and risk, and we have a collaborative research process, with ESG factors forming a core part of our fundamental analysis.

For holdings we consider material in size, a more extensive due diligence task is carried out collaboratively between the Research Analyst and the ESG Specialist, requiring more detailed analysis, documentation and consideration. Each assessment covers potential areas for engagement, with materiality driving our decisions on where to focus our engagement resources. Engagement meetings are often conducted by members of the Research and Responsible Investment teams to ensure an in-depth discussion, concentrating on the material issues specific to the company.

We have engaged with Japanese companies and policymakers on a range of issues, including the Sustainable Development Goals (SDGs), the implementation of the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD) and other systemic issues such as cross-shareholdings, board effectiveness and diversity.

PRINCIPLE 8

Service providers for institutional investors should endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfil their stewardship responsibilities.

Ruffer's approach

Ruffer feeds back regularly to its service providers on a number of considerations, including quality and accuracy of information, methodological issues and general service-related topics.

We believe that ESG issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). As part of our promotion of good stewardship, Ruffer supports and is a signatory to the PRI and we commit to its six 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 ruffer.co.uk/responsibleinvesting

- our Stewardship and Responsible Investment Policy
- our response to the UK Stewardship Code
- Responsible Investment Reports
- a selection of articles on ESG topics

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