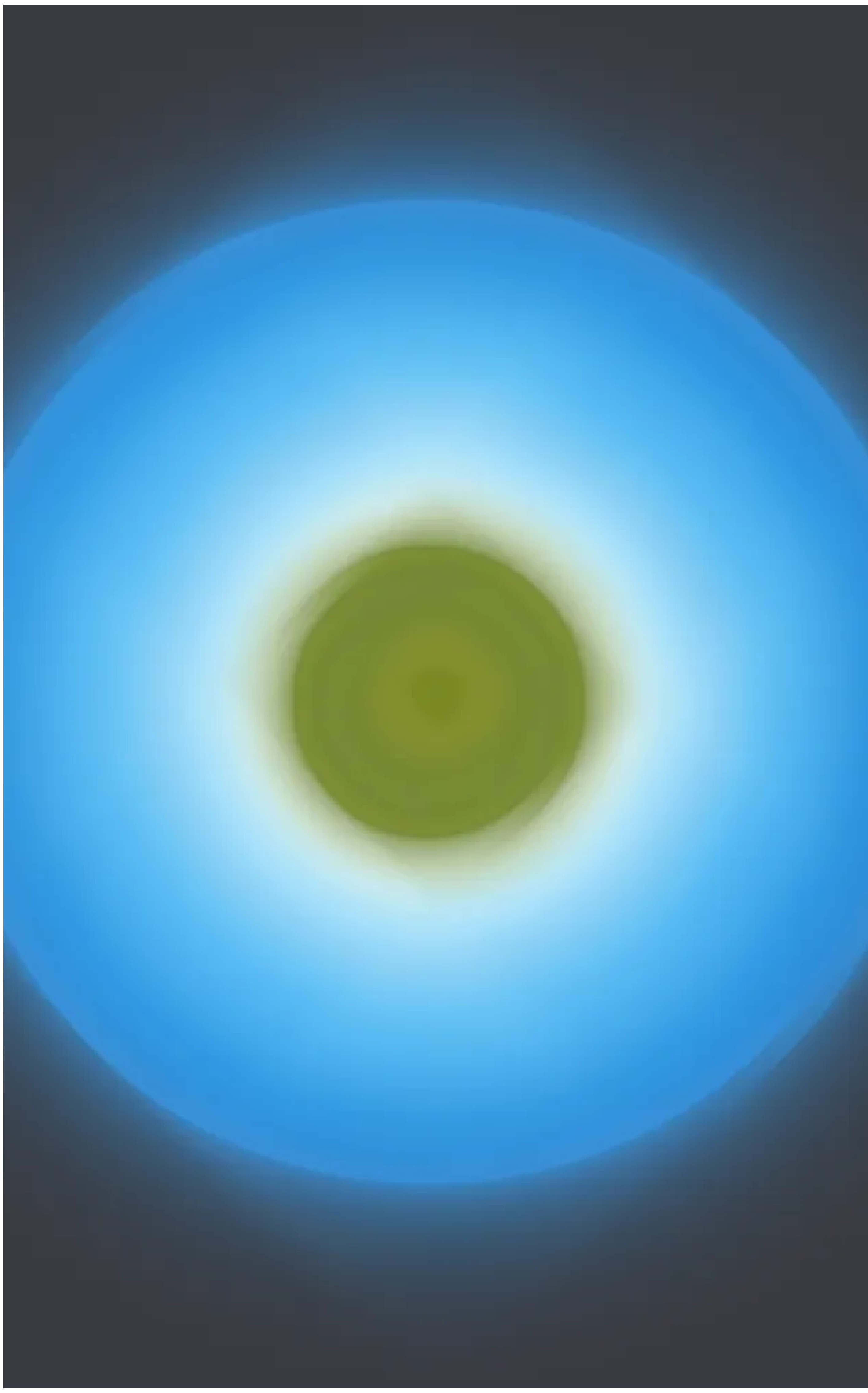


Responsible Investment Report

Q1 2024

START READING

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 as part of our investment process

Engagement

Directly engaging with companies is part of our investment process

Voting

Equity investing comes with rights and responsibilities

We take this seriously

We are signatories and supporters of

Overview of the quarter

SOMETIMES, CLEAR, CONCISE AND CONSISTENT (BUT NOT DOGMATIC) PROCEDURES CAN HAVE A SURPRISINGLY SIGNIFICANT IMPACT ON OVERALL OUTCOMES.

For example, the use of checklists – as championed by Atul Gawande in his book *The Checklist Manifesto* – has dramatically reduced risk and improved safety records in fields ranging from aviation to surgery.

At Ruffer, our main objective is to preserve clients' capital, and then to grow it over time. One of the many risks to capital preservation is from climate change. Our Responsible Investment team uses a checklist to aid our understanding of – and engagement on – companies' energy transition plans.

This list requires us to check three main areas. Are the targets ambitious enough? Is the plan credible? And can it help create value for shareholders?

In this report, we shine a spotlight on our recent engagements with BP and Ryanair and show how our approach to energy transition plans works in practice to help identify sources of both risk and opportunity – whilst encouraging companies' efforts to reduce their carbon emissions.

Our other engagements in focus in this report include another energy company, ExxonMobil. Among several other topics, we also pressed the company on whether its Scope 1 and Scope 2 emissions targets were sufficiently stretching, given its success so far. The company replied that it would be more appropriate to reassess these targets once it had integrated a couple of acquisitions. In addition, we engaged with multinational metals and mining company Glencore, holding a discussion on a wide range of themes, including its mining operations in Peru and Colombia.

Net Zero
beyond target setting

Climate is just one of many risks which may present a challenge in meeting our investment objectives. In order to protect and grow capital, we are deepening our understanding of, and engagement with, the energy transition. One key element of this work is analysing companies' transition plans.

We consider three main criteria: the plan's ambition, credibility and prospects for economic value creation.

Ruffer's transition checklist

AMBITION

Are the company's targets sufficiently stretching?

CREDIBILITY

Is the company well placed to meet its targets?

VALUE CREATION

Can the transition plan drive competitive advantage?

AMBITION

Well-framed emissions reduction targets can galvanise a business and help attract the resources needed to make progress. To respect the Paris Agreement, targets should be designed both to spur action over the near term and to compound results over the long term, ultimately lowering a company's carbon footprint.

But the plan will need to address some thorny questions. After all, the ideological desire to decarbonise for a better world will often conflict with directors' perceived duties, the business's strategy or the near-term imperative to generate return on invested capital. So does the company want to be a first mover, a fast follower or the last incumbent standing? Does it want to respect shareholders' primacy over stakeholders? Does it want to move ahead of or in line with society? Does it restrict its attention to its own emissions or choose to take responsibility for the entire ecosystem?

CREDIBILITY

Whatever the outcome of this soul-searching, targets and goals are just the start. Pledges only have power if they are supported by a coherent strategy and an appropriate capital allocation plan. In many cases, significant investments are needed to re-engineer existing businesses and build new ones, so financial flexibility and balance sheet strength are critical. The company will also need to communicate clearly – with both shareholders and the market more broadly – to gain support from capital providers.

VALUE CREATION

Listed companies need to convince the stock market that capital will be deployed responsibly into projects that are aligned with corporate capabilities. Otherwise, investors – facing the threat of flagging valuations – may force a retreat from Net Zero goals, as we have seen in recent months.

In short, a transition strategy must create value if it is to be successful. By analysing strategies on this basis, we can identify risks and opportunities to advance the Net Zero transition, whilst potentially delivering financial returns for our clients.

So how does our approach work in practice? Let's look at two recent examples: BP and Ryanair.

BP NEEDS TO CONVINCE THE MARKET

The divergence between US and European oil and gas company valuations has remained stubbornly wide. We believe some of this spread is due to differences in perception of companies' transition plans.

BP's shares remain at a discount to the likes of Chevron and Exxon, after underperforming broader industry peers for several years. The reasons for the valuation gap and underperformance are complex and multi-faceted, and we don't want to over-simplify. Nor do we assume that the stock market is the best arbiter – or even aware – of the quality of transition plans.

However, even with the recent change of CEO and earlier adjustments to its transition strategy, BP has held onto a Scope 3 downstream target, whilst American peers such as Exxon have decided against setting one. In addition, BP has plans to stabilise oil and gas production and allocate substantial capital to non-oil and gas businesses such as bioenergy, hydrogen, wind and EV charge points. We think the stock market is worried that BP will destroy economic value by winding down its oil activities too quickly and allocating capital to projects that sit too far from its competitive strengths. In short, the market wants reassurance that these investments will pay off.

We view BP through our three-part framework and have been engaging with the company to get a clearer understanding of both the credibility of its transition strategy and the scope for value creation. Our engagement is now focused on improving the granularity of financial disclosures to help give both us and, importantly, the market comfort on this potential for value creation, and thereby the targets' credibility.

If BP can change the perception that its transition strategy will depress economic profit, its pursuit of new energy prospects may be rewarded with a rising share price. We believe this opportunity makes for an interesting investment case, especially since our models indicate the shares are not pricing in any economic value creation in the future.

Our recent engagements with BP have addressed this key question: how can the company sharpen disclosure to convince the market and shareholders that its transition growth engine investments are on track to generate positive economic profit over the long term? We focus on segment hurdle rates and how they compare with cost of capital. We want to understand how management considers cost of capital in its investment decisions, how project risk affects hurdle rates and how buffers are used when setting hurdle rates above cost of capital. In essence, we are trying to determine the level of capital allocation discipline exercised with respect to over- or under-investment across all the company's segments.

Over time, we would also like more granular financial disclosure beyond current reporting segment breakdowns, so that we can see how rapidly capital is being reallocated and track the trajectory of return on incremental invested capital. In our view, high-resolution disclosure is one requirement for the market to accept investment in clean energy projects. If a company can't generate a return above the project hurdle rate (the cost of capital plus a margin for risk) that the market deems appropriate, then the share price is likely to suffer, signalling the market's preference for that capital to be returned to shareholders via dividends or buybacks. But tension arises when the company is using a different hurdle rate to the one implied by the market.

In principle, we would support the return of capital to shareholders if BP couldn't meet the cost of capital in its transition engines. But, to make this judgement, we need to evaluate return on capital (both current and prospective) robustly over a reasonable time horizon across a range of plausible scenarios. The level of returns is important, of course. But, even if today's returns seem unattractive, being a first mover in the energy transition space could pay off in spades if climate policy or customer demand shifts faster than expected.

Not every company can be – or, indeed, wants to be – the green leader or try its hand at developing solar or wind capabilities. And it certainly shouldn't deploy capital without a clear strategy. We seek to identify companies' competitive strengths by parsing corporate disclosures, conducting quantitative peer benchmarking and engaging with management. This analysis helps us determine what type of climate contribution companies should make, and conversely what activities companies should leave to better-placed operators.

RYANAIR: FROM THE GROUND TO THE SKY

Since we started analysing Ryanair through our transition risk framework in late 2022, our view has been that the aviation industry's transition imperatives will reinforce Ryanair's fundamental advantages over its peers. Our continuing engagement with the company has only strengthened this view.

On our dashboard of key financial metrics, Ryanair stands out for its operational strength, financial flexibility and robust balance sheet. These qualities are only partly reflected in the share price premium over European peers. Whilst several key abatement levers are dependent on suppliers and regulators, Ryanair has direct control over some important ones which could lead to a competitive advantage. The company's lower carbon intensity can be attributed to its business model, load factor and fleet characteristics. The more people on a given plane and the more fuel efficient the aircraft, the lower the company's carbon intensity.

The adoption of sustainable aviation fuel (SAF) is another critical element that will nudge Ryanair closer to the path to Net Zero. Given SAF's importance as an abatement lever, our engagements with Ryanair have centred on the company's efforts to secure sufficient supply, through memorandums of understanding (MOUs), to meet EU requirements and, more significantly, its own demanding 2030 goals. As we wrote in last quarter's report, we are encouraged to see agreements already in place to cover 75% of its 2030 target for SAF to make up 12.5% of all fuel used to fly its planes. As the fleet is upgraded and SAF is delivered, we have also been encouraged to see the company lower its carbon intensity target for 2031, with a new interim target set for 2026.

As EU emissions regulation tightens, we intend to follow the company's progress through our 'SAF tracker'. Crucially, to support our thesis on Ryanair's competitive advantage, we are looking for decarbonisation to be accompanied by strong financial performance, both in absolute terms and relative to peers. To that end, we will continue to follow many key performance indicators for SAF, such as its percentage of fuel consumed, cost premium, lifecycle greenhouse gas intensity and availability across locations. These will be monitored alongside key financial performance metrics.

Through the lens of our transition risk framework, we see Ryanair as both willing and able to take a leadership role in the decarbonisation of aviation. We believe active collaboration across the value chain is needed for the industry to develop the intellectual property required for cost-effective emissions reduction. Airlines will have to work with airframers and suppliers, fuel producers and academic institutions. And these actors will need to work with policymakers to shape the regulatory landscape in a way that supports fuel-switching efforts.

We look to Ryanair to continue providing a positive impulse to this endeavour across the ecosystem. Its robust balance sheet and resilient operating model give it the firepower to invest in abatement levers such as fuel efficiency and SAF, whilst its strong customer base should underpin upstream investment into developing and scaling solutions. As one of the few passenger airlines that has demonstrated the ability to generate positive economic profit, Ryanair's approach to transition risk could become another key pillar of its competitive advantage.

The ecosystem approach

We know from disclosures and engagement with Ryanair that the company is pursuing MOUs with established SAF producers to meet its 2030 targets. It is looking to make agreements with fuel companies with the financial strength to make the necessary investments and the ability to deliver SAF at scale, all without having to worry about running out of cash. Ryanair has struck deals with the likes of OMV, ENI and Shell, though not yet with BP, as far as we know. However, BP is active in the space through Air BP and evidently has the capabilities to contribute to the decarbonisation of aviation, having supplied SAF to operators such as Virgin Atlantic and DHL and agreed to supply SAF to Munich Airport.

By engaging with companies right across the value chain, we can use insights from different companies to cross-pollinate our knowledge and drive ecosystem engagement. For example, one element of our engagement with BP will focus on innovation and the adoption of SAF. Is the company generating new knowledge that can bring down SAF's green premium? How is the company scaling up its activities and ensuring it can service the broadest range of customers?

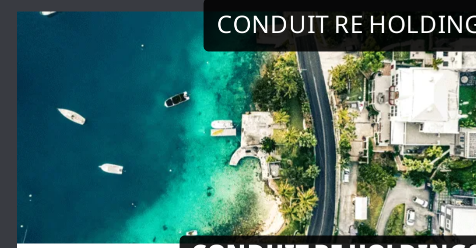
By engaging on big-picture issues like capital allocation, we are addressing risks and opportunities that are potentially material to BP's market valuation. We are thus addressing its ambition, credibility and value creation. But we believe that engagement should also grapple with micro-initiatives – direct, focused actions which are not presently financially material for the implementing company, but could be significant for the ecosystem, especially if replicated by peers. SAF platforms housed within sprawling integrated oil and gas companies fit squarely into this category. We plan to identify more opportunities like this in the future where we see alignment with our portfolio companies and with our commitment to the Net Zero Asset Managers initiative.

Stewardship activities in brief

ARCELORMITTAL

BAYER

BP



CONDUIT RE HOLDINGS

EXXONMOBIL

GAMES WORKSHOP

GLENCORE

SUNCOR ENERGY

Engagements in focus

BP

BP is a long-term holding for Ruffer, and we have long engaged with the company, addressing both the company's role in the energy transition and other social and governance issues. BP has a stated goal of transitioning from an integrated oil company to an integrated energy company, which means it will be vertically and horizontally integrated across the energy value chain. It aims to deliver both fossil fuel and renewable energy to wholesale and retail clients. The question we – and others – have is whether this endeavour will create or destroy value for shareholders.

BP in focus
READ MORE

EXXONMOBIL

ExxonMobil is an integrated oil company (or oil major). Ruffer holds a position in Exxon for two reasons: on a macroeconomic basis, we wanted exposure to oil, given its links to GDP growth; and, on the fundamentals, we have conviction in the Exxon management team and its strategies.

ExxonMobil in focus
READ MORE

GLENCORE

As a multinational metals and mining company, Glencore is no stranger to questions about its operations in developing regions. In late 2023, various non-governmental organisations (NGOs) published three reports on Glencore's mining activities in Peru and Colombia. They contained allegations ranging from soil and water pollution to land dispossession, involuntary displacement and resettlement. Although the human rights, labour and environmental concerns in these regions are well known, the publication of these reports and the breadth of the topics raised prompted us to contact the company to discuss them. We also took the opportunity to follow up on aspects of our last meeting on Glencore's corporate strategy.

Glencore in focus
READ MORE

Charity Assets Trust

The fund's carbon footprint

ESG ratings

Catholic screen results

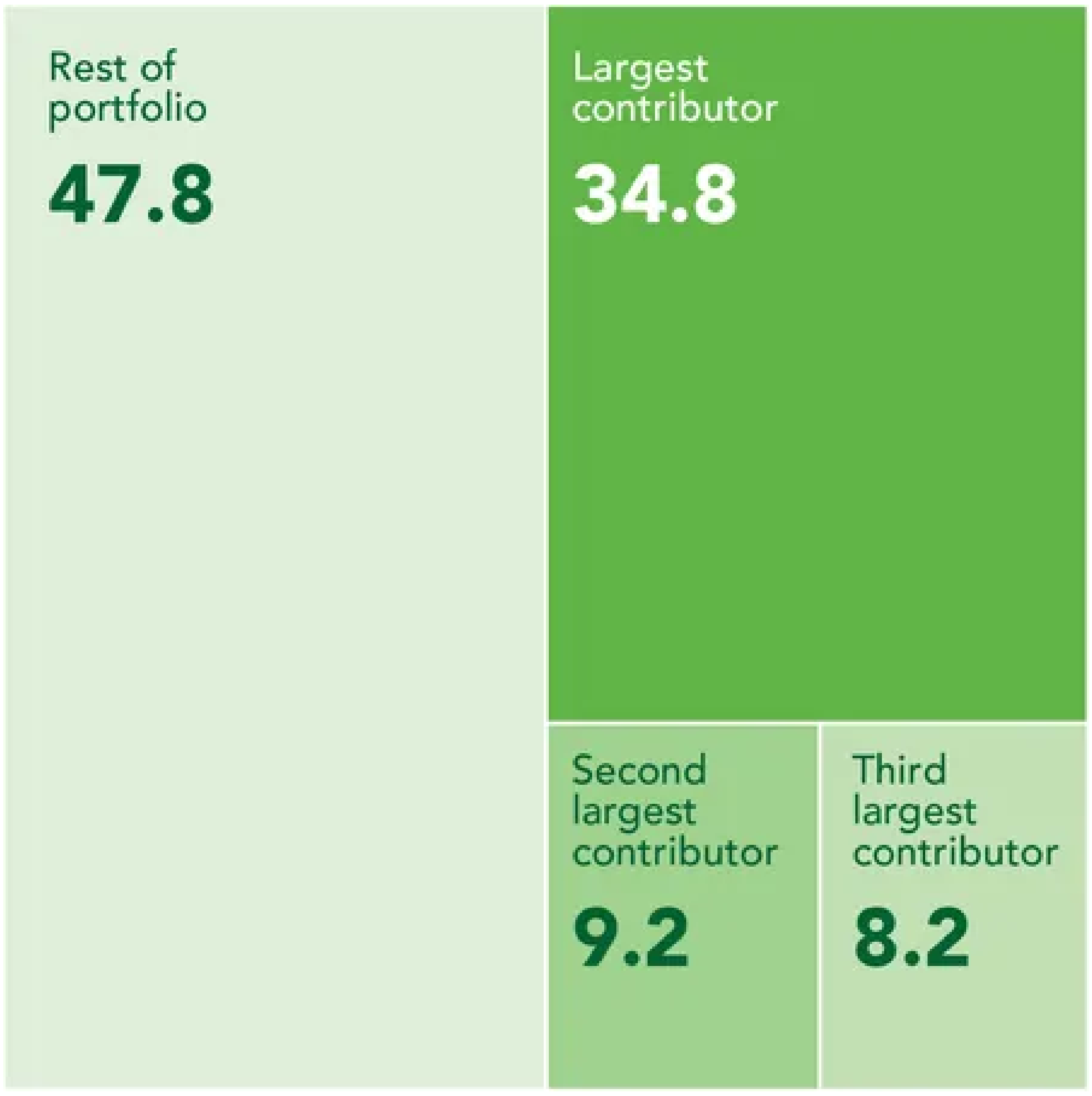
The fund's carbon footprint

One of the tools we use to inform our approach to carbon-intensive businesses, including fossil fuel companies, is monitoring the carbon footprint of the fund.

We calculate the weighted average carbon intensity of the fund on an ongoing basis. This metric, recommended by the Task Force on Climate-related Financial Disclosures, measures a portfolio's exposure to carbon-intensive companies.

It allows for decomposition and attribution analysis, meaning that we can identify the largest company contributors to this metric. We use this to inform our management of the fund and our subsequent engagements with companies.

WEIGHTED AVERAGE CARBON INTENSITY %



Source: MSCI ESG research, Ruffer calculations, data as at 31 March 2024

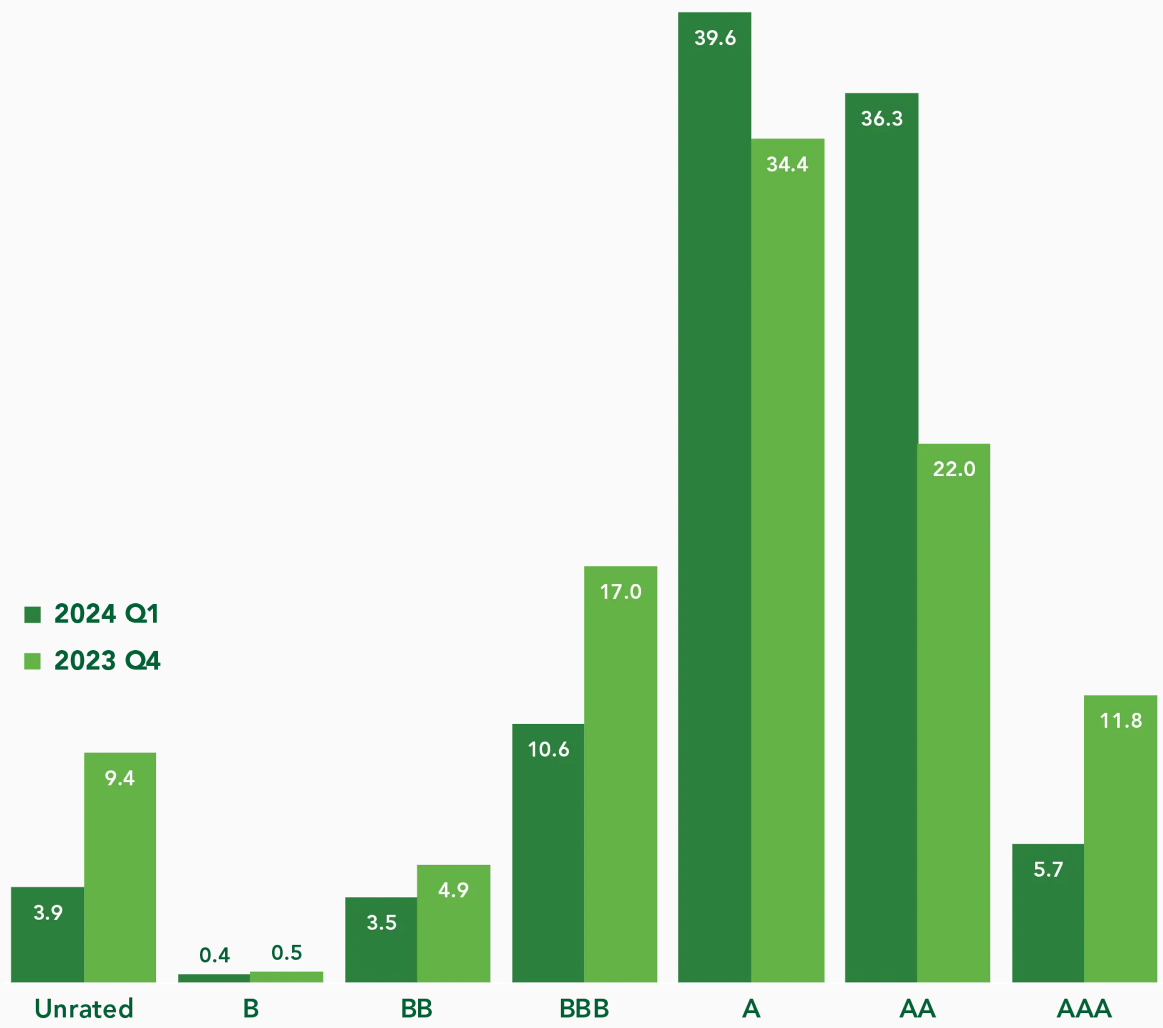
ESG ratings

The overall ESG rating ascribed by MSCI ESG Research to a company is just one of the additional responsible investment inputs we consider when assessing the merits of an investment case. It provides a quantitative proxy by which to measure improvement.

The rating is not absolute; rather, it is relative to the standards and performance of a company's industry peers. It is used to help ensure that as far as possible the fund invests in companies which are considered 'best in class' within their sector. Additionally, there are some portfolio companies that are not rated by MSCI; these are primarily our listed impact and energy investment trusts.

Crucially, we do not use this metric as a hard block. Rather, it is used as a flag to help guide our investment decision making and engagement activities. This allows us to do our own analysis on the investment case, rather than being entirely reliant on rigid metrics that may not reflect a company's evolution. Please see the previous section for examples of this in action.

ESG RATING OF HOLDINGS WITHIN THE CHARITY ASSETS TRUST



Source: MSCI ESG Research as at 31 March 2024. Totals may not equal 100 due to rounding

Catholic screen results

At the end of each quarter, we run the fund's equity holdings through MSCI ESG Research Manager (our third party ethical screening provider).

This report highlights the proportion of the fund that would have been in breach if the fund applied a Catholic faith-based screen. The screen used is as follows.

As the end of the latest quarter there were six companies that breached any of these screens.

Abortifacients	Producer	TRUE
Abortifacients	Intended use abortifacients producer	TRUE
Abortion provider		TRUE
Stem cell research	Foetal tissue	TRUE
Stem cell research	Embryonic	TRUE
Stem cell research	Use of foetal cell lines	TRUE
Stem cell research	Human embryonic stem cell cloning	TRUE
Stem cell research	Enabling technology	TRUE
Contraceptives	Maximum percentage of revenue derived 5%	TRUE

COMPANY A, REPRESENTING 0.13% OF THE TOTAL FUND HOLDING, FAILED ON

Stem cell research	Embryonic
Stem cell research	Use of foetal cell lines

COMPANY B, REPRESENTING 0.18% OF THE TOTAL FUND HOLDING, FAILED ON

Stem cell research	Embryonic
Stem cell research	Use of foetal cell lines
Stem cell research	Enabling technology

COMPANY C, REPRESENTING 0.06% OF THE TOTAL FUND HOLDING, FAILED ON

Stem cell research	Use of foetal cell lines

COMPANY D, REPRESENTING 0.16% OF THE TOTAL FUND HOLDING, FAILED ON

Stem cell research	Foetal tissue
Stem cell research	Embryonic
Stem cell research	Use of foetal cell lines
Stem cell research	Human embryonic stem cell cloning

COMPANY E, REPRESENTING 0.61% OF THE TOTAL FUND HOLDING, FAILED ON

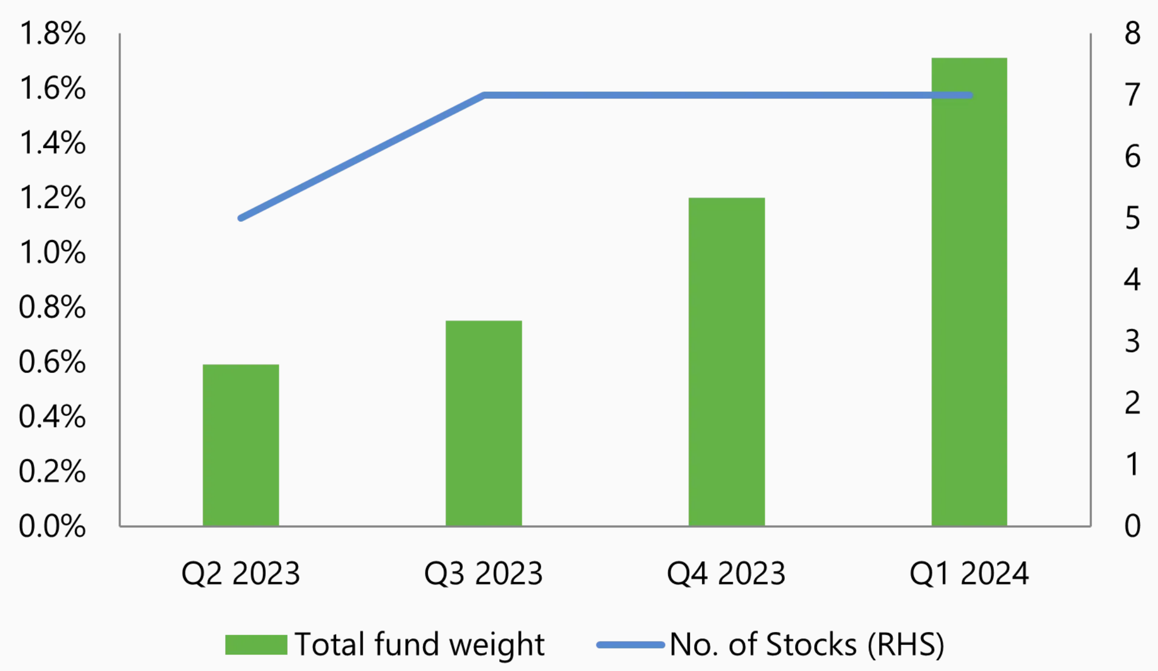
Abortifacients	Producer
Abortifacients	Intended use abortifacients producer
Stem cell research	Embryonic
Stem cell research	Use of foetal cell lines

COMPANY F, REPRESENTING 0.57% OF THE TOTAL FUND HOLDING, FAILED ON

Stem cell research	Embryonic
Stem cell research	Use of foetal cell lines

Therefore, as of 31 March a total of 1.71% of the total fund's holding would have been excluded had the fund applied the screen.

This chart documents how this has changed over the past 12 months.



About Ruffer

OUR AIM IS TO DELIVER CONSISTENT 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 boomand bust. For over 28 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value.

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

ARCELORMITTAL

A meeting with the Head of Investor Relations, the ESG Investor Relations Manager and the Vice President, Corporate Communications and Corporate Responsibility

Topics – energy transition; health and safety

Objective

Energy transition – to investigate what the company sees as presenting bottlenecks, costs and challenges to decarbonisation, and how these are evolving; to get an update on how ArcelorMittal is progressing on setting science-based targets.

Health and safety – to ask for updates on the independent safety review after the Kazakhstan mine explosion last year and on the independent inquiry into the explosion; to hear the latest on safety performance across the company, excluding the Kazakhstan explosion; to push for more granular disclosure of safety performance at the asset and business segment level.

Outcome

Energy transition – ArcelorMittal cited as barriers to decarbonisation the availability and price of clean energy, scrap metal and production needs from existing infrastructure, noting that the volume and cost of such energy are still prohibitive. The company maintains it is laser focused on cost competitiveness, with economic sustainability an important consideration. On science-based target setting, ArcelorMittal highlighted the need for regional pathways for the sector which the Science Based Targets initiative has acknowledged. The company wants its target setting to be credible and sees more value in explaining why it can't currently set science-based targets.

Health and safety – A company-wide health and safety audit has begun that is comprehensive in both scale and scope. A report should be published towards the end of this year. The company cannot provide any further details on the safety review of the Kazakhstan mine, as the mine has been sold to the government. ArcelorMittal confirmed that, excluding the Commonwealth of Independent States (CIS) region, its health and safety record over the period had been excellent.

Next steps

The Climate Action 100+ working group and Ruffer continue our discussion with ArcelorMittal on transition pathways for the steel sector. We think ArcelorMittal could improve its reporting and disclosure, not only providing more granular, asset level information but telling a better story in relation to its 'green' steel production. We await an update from ArcelorMittal on the health and safety audit.

BP

BP

A meeting with the Chief Financial Officer (CFO) and the VP Investor Relations, Strategic Communications

Topics – sustainability reporting

Objective

Sustainability reporting – to request additional reporting on low carbon or transition growth engines and financial reporting by business segment for greater transparency.

Outcome

Sustainability reporting – the CFO clarified that Ruffer is not the only shareholder (or stakeholder) asking BP to give greater insight and perhaps re-segment the financial reporting to strip the low-carbon or transition growth engines away from the traditional oil segment. She cautioned that, given the scale and scope of BP and its existing asset base (some of which will be re-purposed for sustainable aviation fuel or biofuels), the company would consider this topic over the coming 12 to 18 months before announcing anything to the market.

Next steps

In our next meeting with the company, we plan to clarify some of the points raised by the CFO: the possibility of revised segment reporting; the key performance indicators for measuring the speed and trajectory of the energy transition; and the broad topic of capital allocation – asking how we as shareholders can gain comfort that the board and management are deploying capital in the best interests of the company. Since the CFO met with us and other investors, BP has released its annual report materials (reiterating its carbon reduction ambitions) and released additional communication which address the points about the likely total returns from renewable assets versus traditional oil and gas assets.

A meeting with Investor Relations

Topics – health and safety; energy transition; sustainability reporting

Objective

Health and safety – to understand how the remuneration committee were factoring fatalities into executive compensation; to ask whether management are concerned about upticks in safety metrics.

Energy transition – to question BP's recent performance against its stated Net Zero aims.

Sustainability reporting – to reiterate our request for additional disclosure.

Outcome

Health and safety – the BPX fatality resulted in a five-point downward adjustment to the annual cash bonus plan. BP agreed safety was always a concern and that it takes time to integrate a new business into BP's culture and systems. The company is measuring employee engagement through annual surveys and more frequent, sampling-based pulse surveys.

Energy transition – BP argued it's a timing issue, with investments starting to deliver operational efficiency and sustainable emissions reductions. A key deliverable for 2023 was moving from a calculated to a measurement approach for methane, which was completed in major facilities and will result in a more robust estimate.

Sustainability reporting – BP took our comments on board but had no further updates following our last meeting.

Next steps

We look to continue our dialogue with Anja-Isabel Dotzenrath, BP's Executive Vice-President of gas and low carbon energy. We are keen to explore further the metrics BP uses to signal and measure the speed of the transition, anything further that can be shared on hurdle rates, carbon pricing assumptions, capital allocation decisions and maximising value post integration.

CONDUIT RE HOLDINGS

CONDUIT RE HOLDINGS

A meeting with the Chair and the Chief Executive Officer

Topics – climate change; employee compensation and benefits

Objective

Climate change – to discuss how Conduit is assessing its risk exposure given increased weather events and its smaller insured base.

Employee compensation and benefits – to understand if and how the benefits given to employees translated into greater staff retention and higher productivity.

Outcome

Climate change – Conduit argued that, rather than being a 'dysfunctional' market, insurance was going through a phase of normalisation, with insurers adjusting prices and responding more pragmatically to weather and non-weather events. Conduit also made the point that, as a reinsurer, its risk models and tolerance for losses drive which tranche of insurable losses it is prepared to take.

Employee compensation and benefits – Conduit is a relatively new business, in its growth phase and in some ways still proving its business model. The CEO suggested we follow up with a member of the HR team to go into further detail on how staff investment is viewed within the company.

Next steps

We plan to continue discussing the company's corporate social responsibility programme with HR, to understand how or if both charitable giving and investment in staff contribute to higher productivity or lower costs. Given the likely increase in weather-related events linked to climate change, we will seek greater insight into Conduit's risk models to protect against losses and how it invests its capital reserves in line with its corporate objectives.

EXXONMOBIL

EXXONMOBIL

A meeting with Investor Relations and Corporate Strategic Planning Executive, Greenhouse Gases

Topics – carbon emissions; energy transition; shareholder rights

Objective

Shareholder rights – to understand the legal action Exxon is taking against shareholder activists.

Carbon emissions – to push Exxon to set more stretching Scope 1 and Scope 2 emissions reduction targets.

Energy transition – to gain insight into Exxon's entry into lithium carbonate mining and production, and its activities in biofuels, carbon capture, utilisation and storage (CCUS) and plastic recycling.

Outcome

Shareholder rights – Exxon felt frustrated by what it perceived to be inconsistent application of US Securities and Exchange Commission rules on shareholder proposals. To address the inconsistency, Exxon wanted to use the court to determine fair process. It was reiterated that the case was not about stopping legitimate shareholder dissent.

Carbon emissions – in Exxon's 2024 Advancing Climate Solutions report, the company shows good progress towards its stated 2030 Scope 1 and Scope 2 greenhouse gas (GHG) intensity targets. Exxon defended its targets, arguing that, with the potential or actual acquisitions of Pioneer Natural Resources and Denbury, integration should be completed before refining organisational targets. However, for the Pioneer assets, Exxon confirmed it had brought forward the ambition to achieve Net Zero Scope 1 and Scope 2 GHG emissions by 2050 to 2035.

Energy transition – ExxonMobil anticipates the proportion of primary energy supply sourced from electrons will rise. Exxon is electrifying its own activities, where economic to do so, but the company is staunch in leveraging its competitive advantages and corporate knowledge in the molecules business. Its low carbon transition strategy includes reforming plastics, building out biofuels (including sustainable aviation fuel), expanding CCUS and, most recently, its intention to supply lithium carbonate for the manufacture of electric vehicles.

Next steps

Depending on the agenda at the forthcoming AGM, we may seek further discussions on any contentious resolutions proposed. Absent that, we plan to investigate further topics such as capital allocation (particularly around expected returns or hurdle rates for the low carbon businesses), the scale-up of CCUS given its critical role to remaining within the theoretical global carbon budget and energy scenario and the components which drive the board in determining strategy to preserve and enhance shareholder value.

GAMES WORKSHOP

A meeting with the Chief Executive Officer and the Chief Financial Officer

Topics – succession planning

Objective

Succession planning – to probe the succession plans in light of the CFO stepping down. In our view, it is essential that the company's culture is preserved, so any replacement at the executive level should be considered carefully.

Outcome

The meeting gave us comfort that preserving the company's culture is a key consideration in succession planning.

Next steps

We planned to speak to the Chair of the board to ensure the Nomination Committee (responsible for appointing the executive team) was equally cognisant of the importance of the company's culture in its decision-making.

A meeting with the Chair

Topics – succession planning

Objective

Succession planning – to ensure the Nomination Committee (responsible for appointing the executive team) is equally cognisant of the importance of the company's culture in its decision-making.

Outcome

The meeting gave us comfort that preserving the company's culture is a key consideration in succession planning.

Next steps

We will monitor progress on finding a suitable replacement who will be able to preserve the company's culture.

GLENCORE

A meeting with the Head of Sustainable Development and the Head of Investor Relations and Communications

Topics – Human labour rights; energy transition; stakeholder management

Objective

Human labour rights – to discuss two recent reports from non-government organisations which raised a slew of environmental and social issues, and the company's response, if any.

Energy transition – to discuss the use of an internal carbon price and marginal abatement cost curves, the cost of capital and the portfolio's resilience to climate change.

Stakeholder management – to discuss how Glencore was incorporating shareholder feedback into its next Climate Report.

Outcome

Human labour rights – in both cases, Glencore asserted the issues raised were well known and reported in the past. That said, Glencore confirmed it will meet with CooperAcción to discuss elements of the report.

Energy transition – Glencore publishes a marginal abatement cost curve but said it would not disclose internal carbon price assumptions, nor would it elaborate on aspects of cost of capital. In terms of portfolio resilience and economic value added, Glencore accepts that, in any scenario, demand will decline for coal but rise for transitional metals.

Stakeholder management – Glencore reviewed shareholder feedback, undertook a benchmarking exercise and considered current and expected regulation. With increased focus on the metals recycling business and overall transparency of approach, Glencore said it thinks the updated plan, due to be published in March 2024, will meet the expectations of most shareholders.

Next steps

We plan to wait until details become clear on Glencore's acquisition of Teck Resources and the subsequent demerger of the company's coal assets. We may undertake further engagement with the company focused on Net Zero once its Climate Transition Action Plan is published.

SUNCOR ENERGY

A meeting with Investor Relations

Topics – energy transition; sustainability reporting; health and safety; stakeholder management

Objective

Energy transition – to discuss the company's progress on carbon capture and how it is considering marginal abatement cost curves within capital allocation decisions.

Sustainability reporting – to ask whether the company will report nature-related financial information in line with Taskforce on Nature-related Financial Disclosures (TNFD) recommendations.

Health and safety – to explore the company's stellar safety performance over the past year and understand what drove the improvement.

Stakeholder management – to understand how the company was engaging with the community about, and addressing any objections to, a proposed pipeline to transport captured carbon dioxide as a component of the Pathways Alliance CCUS project.

Outcome

Energy transition – Suncor is active in hydrogen production, biofuels, combined heat and power and operational efficiency (extracting more final product with lower inputs). However, decarbonising the core business is the challenge, and successful deployment of CCUS is critical to the company's transition strategy.

Sustainability reporting – Suncor currently prepares a detailed sustainability report and disclosures, which cover nature and biodiversity, and the company confirmed its intent to publish a TNFD report by 2026.

Health and safety – we gained additional conviction that the recently appointed CEO is executing his plan to revitalise a poorly performing business, as measured by safety performance, organisational culture, operational efficiency and capital allocation.

Stakeholder management – Suncor assured us that the pipeline project has support from local communities, given Canada's established agreements with traditional owners, and their longstanding relationships with and proactive inclusion of stakeholder groups in the planning of operations. In other words, we gained comfort that free, prior and informed consent of the local people had been obtained.

Next steps

Given the recent legislative and regulatory changes, we will be seeking some milestones from Suncor and monitoring its progress towards the deployment of CCUS.

BP

We started the meeting addressing shorter-term matters. BP's Whiting refinery is one of six remaining in its portfolio and processes nearly half a million barrels of crude oil per day. A power failure at the beginning of February meant the refinery had to be shut down, leading to loss of earnings and potential increased costs. It can take many weeks to restart the asset safely, and it had only just come back online. In 2023, BP agreed to pay a $40 million fine and spend $200 million on pollution control, given a finding from the US Environmental Protection Agency that the refinery had violated air pollution standards. We asked if the power failure and the requirement to install additional pollution 'scrubbing' equipment were related. BP had completed an internal root and branch review of the event and confirmed the issues were unrelated.

Health and safety was discussed, given one fatality in the BPX business and two in BP's recently acquired TravelCenters of America. We asked how the remuneration committee was factoring the fatalities into executive pay. The company explained that the BPX fatality resulted in a five-point downward adjustment to the annual cash bonus plan. The TravelCenters fatalities occurred before the acquisition closed. As BP didn't have operational control, it was argued that management should not be penalised for those fatalities. More broadly, while Tier 1 and 2 process safety events improved, there was an uptick in recordable injuries, and we asked if this trend worried management. BP agreed safety was always a concern and that it takes time to integrate a new business into BP's culture and systems. The company is measuring employee engagement through annual surveys and more frequent, sampling-based pulse surveys.

The conversation then moved onto performance against BP's Net Zero targets. After delivering good progress in the first year, the trend across Aims 1 to 4 (Net Zero operations, Net Zero production, Net Zero sales and methane reduction) appeared to have deteriorated or flatlined. BP argued it's a timing issue and that investments are starting to deliver operational efficiency and sustainable emissions reductions. A key deliverable for 2023 was moving from a calculated to a measurement approach for methane, which has been completed in major facilities and will result in a more robust estimate. BP remains confident it can reach its stated aims.

We revisited questions we had posed to BP's CFO earlier in the quarter – whether BP would consider re-segmenting financial reporting to allow investors improved insight into the low carbon and transition growth engines relative to the traditional oil and gas business and whether BP could provide additional disclosure on its expected returns from renewable energy, presenting them like other reporting segments. On the former, there were no further updates, but the message had been heard. On the latter, the company highlighted its discipline in committing capital to projects and businesses that would meet its hurdle rates, citing its decision to walk away from a US wind asset.

This turned into a broader discussion about strategy and the apparent tension between shareholders who wish BP would drive harder on renewables and those who question its organisational strength, competitive advantage, financial position and ability to allocate capital away from oil and gas. BP quite rightly noted this tension is not new, arguing that the shift from origination to delivery is key to convincing all stakeholders BP is on the right track. It was firmly of the opinion that 'electrify everything' will disrupt demand for oil and gas and there was a strong argument to build out the pipeline for wind energy in particular, but also for green hydrogen, biogas and co-processing sustainable aviation fuel. BP sees renewable energy investment as an enabler that can be integrated with existing businesses to help decarbonise and believes the market will reward business models that are capital light.

In response to the argument that BP should stick to what it knows, it argues the soft skills are just as important as the hard skills. Culture, experience working in difficult environments (such as offshore), access to technology, negotiating big contracts and the ability to partner with the large industrial and manufacturing players all contribute to successfully preserving and creating shareholder value. These are all areas where BP has proper strengths. A real focus on integration is the value proposition, across the value chain.

We closed by asking if we could have a follow up meeting with Anja-Isabel Dotzenrath, BP's Executive Vice-President of gas and low carbon energy, given her expertise and knowledge of the renewable energy space. We met her in the early days of BP's 'performing while transforming' strategy, where it was apparent she had influenced strategy and investment. We are keen to explore further the metrics BP uses to signal and measure the speed of the transition, anything more that can be shared about hurdle rates, carbon pricing assumptions, capital allocation decisions and maximising value post integration.

EXXONMOBIL

Exxon made headlines earlier this year on reports that it had taken legal action against two shareholder activist groups, Arjuna Capital and Follow This, over a proposed shareholder resolution related to Scope 3 carbon emissions. The activists were pushing the company to set a medium-term reduction target covering greenhouse gas (GHG) emissions from the use of its energy products that is consistent with the goal of the Paris Climate Agreement. The resolution was withdrawn once Exxon launched legal action. In effect, if successful this resolution would have required Exxon to cut production, reducing both cash flow and potentially shareholder value.

In our discussion, Exxon advanced two arguments. Firstly, it felt shareholders had already been given a voice on Scope 3 emissions and had overwhelmingly supported its strategy. When an almost identical proposal had been tabled at the 2023 AGM, 89.5% of shareholders supported management. In 2022, 72.9% of shareholders voted against a proposal asking the company to adopt medium and long-term GHG emissions targets. Secondly, Exxon's lawsuit is intended to seek clarity and consistency on the US Securities and Exchange Commission's process for approving shareholder-led proposals, not to stifle shareholders' right to submit proposals.

Whilst we have reservations about the effectiveness of Scope 3 emissions targets for oil companies, we asked if Exxon considered its 2030 Scope 1 and 2 targets to be sufficiently stretching, given the progress it has made so far, or would it consider a more aggressive goal. Exxon countered that a reassessment of targets would only be appropriate once it had completed the integration of Denbury and Pioneer Natural Resources.

We also spoke to Exxon about its methane emissions. Since our previous discussion, the company has joined the UN Oil & Gas Methane Partnership 2.0 (a commitment to a comprehensive measurement-based reporting framework). This is in addition to supporting the Global Methane Pledge and the Aiming for Zero Methane Emissions Initiative. Exxon has also provided additional detail in its sustainability reporting about the tools and techniques it will employ to reduce methane emissions intensity, such as satellite and other remote sensing, in situ ground-based monitoring and eliminating routine flaring in its Permian Basin operations.

In light of the political risk associated with the upcoming US election, we asked how the company was positioned in relation to potential changes to the Inflation Reduction Act (IRA) as well as the potential to encourage further oil extraction. The IRA contains provisions which promote investment in carbon capture, utilisation and storage (CCUS) and financial incentives for domestic manufacturers to source inputs domestically. Exxon's abatement curve indicates CCUS offers the greatest opportunity to sequester emissions (particularly Scope 3 emissions of steel, fertiliser and industrial gases companies), but it is presently uneconomic to deliver that volume of sequestration. Greater policy support and a sufficient carbon price are required to deliver the volume. Nevertheless, Exxon has signed deals to capture 5 million metric tons of CO_2 per year, more than any other player. The company has also announced its entry into lithium production at a time when lithium prices have retreated, and many producers are not profitable. Exxon believes it can deploy its core expertise in mineral extraction, separation and reinjection to deliver low cost lithium carbonate to the equivalent of 1 million electric vehicles by 2027.

We would like to follow up on many aspects of Exxon's climate solutions plan, such as blue and green hydrogen, biofuels and 'advanced plastics recycling', from the potential speed of scale up and volume throughput to capital allocation and the likely rate of return of these projects. Exxon's chosen path towards Net Zero is different from its European peers'. Yet we consider the company to be no less thoughtful in terms of resiliency of fossil fuels in a carbon constrained world and investing in the emerging businesses and technologies our economy needs to raise the standard of living whilst reducing its environmental footprint.

GLENCORE

Our concerns with respect to the NGO reports were twofold. Firstly, we questioned whether Glencore's business activities in South America were being conducted in line with its own stated policies or indeed with expectations laid out by the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct or the Voluntary Principles on Security and Human Rights. Secondly, we considered whether these issues could affect Glencore's social licence to operate.

Glencore reiterated these reports contained nothing new; the allegations had been made previously and have been addressed by the company in good faith. The company also noted that, given these reports were all published in the second half of 2023, their release could be linked to putting pressure on lawmakers to strengthen the forthcoming European Union Corporate Sustainability Reporting Directive (CSRD) regulations. One of Glencore's subsidiaries responded in writing, rebutting the claims outlined in the Cerrejón report, and Glencore stated it would subsequently meet with CooperAcción (one of the publishers of the report on the Antapaccay copper mine) to discuss the Peruvian allegations.

The social licence to operate depends on local stakeholders' acceptance of a company's standard business practices. In the case of mining, questions about the social license may take the form of delayed permitting, rejected project applications or a sovereign state deciding to cancel existing mining operations. Glencore noted that, whilst social licence remains front of mind, it is not a major concern. To explain, Glencore said it had reviewed the country risk rating applied to the areas where it operates. No adjustment was applied to the risk rating for operations in the South American region, but the risk rating for the African operations was increased.

We went on to discuss Glencore's proposed acquisition of Teck Resources' steelmaking coal business, Elk Valley Resources, which was announced in November 2023 and is due to close in the third quarter of 2024. The plan is first to merge the metallurgical coal business into Glencore and then, within two years of the merger, to split Glencore into two businesses: a pure-play coal producer; and a supplier of copper, cobalt, zinc and nickel to the energy transition.

Questions have been raised about how Glencore will report its carbon footprint post acquisition, especially given shareholder dissent at the publication of its 2023 Climate Progress Report. For the 2024 update, Glencore confirmed it would neither re-baseline its carbon emission profile nor include Elk Valley Resources in its carbon emissions reduction plan. If Glencore plans to hold the Elk Valley Resources asset as part of a consolidated business, we think best practice would be to restate the carbon footprint to account for significant acquisitions or divestitures. For shareholders judging climate risk and the efficacy of a transition plan, an estimate of a company's carbon footprint and emissions trajectory provides valuable insight.

Given our analytical approach to decomposing carbon-related risk, we asked Glencore whether it would consider disclosure of the hurdle rates or cost of capital applied to assessing abatement projects, as well as the carbon prices used in its scenario analysis. Whilst Glencore has previously disclosed its marginal abatement cost curve (MACC), we also asked whether the company had any tangible examples of the real-world success or failure of projects identified within the MACC framework. Such information would help us as investors to better understand the company's portfolio resilience, asset life and sensitivity to energy scenarios.

Glencore has no current plans to disclose internal carbon price assumptions or to elaborate on cost of capital, but it said it considers the portfolio and investment decisions through this lens. On its scenario analysis, the business maintains it is resilient to changing market dynamics. Ruffer may seek to engage further with Glencore as we approach the 2024 annual general meeting and review any materials the company issues before the meeting.

BAYER

A meeting with the Head of Investor Relations, the Head of Corporate Law and the Head of Public Affairs, Science, Sustainability and HSE

Topics – remuneration; board structure and independence

Objective

Remuneration – to respond to the company's request for shareholder input on appropriate pay policy, given shareholder dissent against the pay report at the 2023 AGM, where litigation costs were excluded from the calculation of performance pay.

Board structure and independence – to discuss the skills matrix of board directors, the size of the board and board diversity, with expected rotations of directors on the supervisory board.

Outcome

Remuneration – Bayer has revised its pay policy to include litigation in performance metrics, which we see as an important signal to shareholders that senior executives are focused on solving the Monsanto litigation.

Board structure and independence – Bayer will release details of proposed candidates in due course.

Next steps

Once the AGM materials are released, Ruffer will review in more detail the proposed candidates and decide whether to support their election or take other action.

A meeting with the Chair of the Supervisory Board, the Head of Investor Relations and the Head of Corporate Law

Topics – remuneration; board structure and independence

Objective

Remuneration – to understand the Chair's perspective on the proposed remuneration policy.

Board structure and independence – to discuss the proposed candidates and the skills they will bring to the board if elected.

Outcome

Remuneration – the Chair shared his thoughts on the company's progress towards its goals, its revised legal strategy on litigation, the skill sets it targets for directors and the process for the revised pay policy.

Board structure and independence – the three proposed directors bring senior executive experience in large litigation cases in the US and strong backgrounds in capital markets and investor activism, as well as in science and medical innovation.

Next steps

We continue to monitor the company's performance and plan to take the information we received into consideration when casting our vote at the AGM.