RUFFER

Responsible Investment Report

Q2 2023

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 as part of 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
Climate Action 100+
Transition Pathway Initiative
CDP DISCLOSURE INSIGHT ACTION
IFRS Sustainability Alliance
RACE TO ZERO
UK STEWARDSHIP CODE

Overview of the quarter

WHEN APRIL'S SWEET SHOWERS HAVE PIERCED MARCH'S DROUGHT TO THE ROOT (AS GEOFFREY CHAUCER PUT IT), PEOPLE'S THOUGHTS NATURALLY TURN TO A SUMMER OF OUTDOOR EVENTS. Back in Chaucer's day, a pilgrimage was the hot ticket. In these more modern times, it might be Wimbledon, the Chelsea Flower Show or Glastonbury. Henley, perhaps? Whatever floats your boat.

For the responsible investment team, however, the second quarter holds other delights. With the bulk of annual general meetings held between April and June, this is peak voting season.

Voting is very important for us – and for our clients. It allows us to express, on their behalf, our independent judgements on the various resolutions put forward by both management teams and shareholders. In this way, our votes can amplify the messages we convey directly to companies during our engagements throughout the year.

In this quarter's Responsible Investment Report, we delve into the thinking behind our recent votes both for and against resolutions on a broad range of environmental, social and governance issues. These are complex topics, and our decisions are taken only after deep research and serious consideration by the responsible investment team, with input from other experts – both internal and external – where relevant. The companies whose votes we focus on in this report are Amazon, BP and Glencore.

As usual, we also give a full list of our engagements with companies over the quarter and provide more detail on some of the more noteworthy ones – this time, those with Volkswagen, steel giant ArcelorMittal and offshore drilling services supplier Noble.

Stewardship activities in brief

COMPANY	SUMMARY
ADMIRAL GROUP	A meeting about the company's remuneration policy, specifically to clarify the congruency of targets and performance metrics.
AMBEV	A call to discuss the independence of board directors and express our concerns about the Chair of the Board and another director. We also expressed our intention to vote against the remuneration plan at the upcoming AGM as we think the proposed increase is excessive.
ARCELORMITTAL	Co-signed a letter asking ArcelorMittal for further transparency on the pathway towards setting and achieving its climate targets. Later in the quarter, we met with the company individually to discuss progress made, including its health and safety issues and how the risk culture was being addressed through controls, systems and executive remuneration. We also discussed how ArcelorMittal could harness green steel as a competitive advantage and how it planned to align its reporting with a new European framework.
ASHMORE GROUP	A meeting to discuss the revisions to the company's remuneration policy.
BP	Following on from our meeting last quarter, a discussion about capital discipline and allocation in light of the company's changing aims. We also discussed CEO remuneration and a shareholder resolution at the upcoming AGM, given recent fatalities.
DASSAULT AVIATION	A brief discussion ahead of the company's AGM to clarify how land acquisitions from related parties are governed and to ensure succession plans are in place for family directors and directors associated with the controlling family shareholder.

COMPANY	SUMMARY
DUPONT	A meeting to discuss the potential financial liabilities linked to litigation over PFAS (synthetic chemicals known as forever chemicals as they don't degrade easily). We also explored the governance of integrating ESG strategy with corporate strategy.
EPWIN GROUP	A meeting about the company's recycling initiatives (via recent acquisitions) and the business case for reusing and repurposing materials in Epwin's operations.
EU COMMISSION	Co-signed a letter to the EU Commission, encouraging the removal of aeronautics as a specific activity under the EU Taxonomy.
JET2	A meeting to discuss the company's use of carbon offsets to abate its emissions given the lack of support for sustainable aviation fuel, the nomination of female directors to the board and to senior management, and whether the board is considering linking the variable component of remuneration to ESG targets and metrics.
JDE PEET'S	A discussion covering the level of independence on the board and across the board's sub-committees, the company's relationship with ESG ratings agencies such as MSCI, and the recommendation from Institutional Shareholder Services (ISS) to vote against the remuneration proposal. On this last topic, we concluded that the size and metrics of the long-term and short-term incentive plans were acceptable, so we plan to vote in favour of the policy.
MARKS & SPENCER	A meeting focused on gaining a better understanding of the company's unique management structure. The meeting ultimately reassured us that roles and responsibilities are clearly defined and there is a culture of challenge and honesty in the decision-making process.
M&T BANK	An introductory meeting to discuss the company's relationships with ESG ratings agencies, plans to disclose to CDP and progress on the development of a climate risk framework and measurement of financed emissions.

COMPANY	SUMMARY
NOBLE	An introductory meeting to discuss how the company is incorporating sustainability post-merger and to understand how reducing carbon emissions is contingent on strong customer relationships. We also encouraged robust ESG disclosure and engagement with ESG ratings providers.
PFIZER	A meeting covering a broad range of topics, including remuneration and gender diversity metrics, how the company ensures independence of its auditor, and succession planning for the lead independent director. We also clarified how the company was using power purchase agreements and carbon credits in its energy transition plan.
PROSEGUR CASH	A meeting to discuss the company's MSCI rating and the recent voting recommendations provided by ISS.
RESONA	A discussion on the company's initiative to reduce cross-shareholdings, which we support. We also wanted to understand the company's sustainability initiatives, focusing on Net Zero targets, financing oil and gas projects, and gender diversity and inclusion.
SHELL	A group call to discuss performance and sustainability outcomes for 2022 and the remuneration policy for 2023. We also met with the Chair to discuss Shell's energy transition strategy, whether it would set absolute Scope 3 emissions targets and its capital allocation strategy. We then met with the company again in response to the letter we sent to the CEO last quarter.
STRIX GROUP	A discussion on the company's products that help reduce energy consumption in small appliances and how this offering appeals to ESG-minded investors.
SUNCOR	A meeting to discuss the company's integration of ESG, the role of climate solutions within Suncor's portfolio and its relationship with climate-focused initiatives. We also asked how the company is addressing safety problems in light of recent fatalities.

COMPANY	SUMMARY
TENARIS	A discussion about the company's strategy to reduce emissions, whether its 2030 target was sufficiently stretching and to encourage Tenaris to set a Net Zero goal or a science-based target. We also asked how the company engages with ESG ratings providers such as MSCI and ISS.
VELOCYS	A meeting to discuss capital allocation and strategy as the company pursues the production of sustainable aviation fuel.
VIVENDI	An opportunity to question the effectiveness of the audit committee, given it is not independent, and to suggest a clearer split of the nomination and remuneration committees. We also questioned the structure and efficacy of the metrics used in the remuneration policy.
VOLKSWAGEN	A comprehensive discussion that touched on the responsible sourcing of critical raw materials, human labour rights, executive remuneration, board independence and the company's MSCI ESG rating.
WESTGOLD RESOURCES	A formal communication to the Chair and the managing director to discourage further dilutive capital raises.
YARA INTERNATIONAL	A meeting about the company's progress on setting science-based emissions reduction targets, and the growth potential of the clean ammonia business.

Engagements in focus

NOBLE

Noble provides offshore drilling services for oil and gas exploration and production companies. We met with Noble's sustainability team this quarter to learn how the company is considering ESG issues within the business.

Following the completion of its merger with Maersk Drilling in October 2022, Noble is prioritising the establishment of a robust baseline before setting decarbonisation targets. We expressed our preference for all the companies we invest in to set targets to reduce their operational emissions, at the very least. That being said, Noble finds itself in an interesting position – the industry standard is for the customer (not the operator) to take responsibility for the supply of and payment for fuel used during drilling campaigns. We wanted to understand this relationship, focusing on how Noble works with its customers to promote more sustainable operations – by either improving energy efficiency or using more sustainable fuels to operate the drilling rigs.

The company is making clear to its customers that there is a business – as well as a moral – case for reducing energy consumption on its rigs. Noble is already committed to installing energy efficiency equipment across its fleet and is conducting feasibility studies to operate some of its rigs using alternative fuels. This work is being completed in cooperation with its customers and is a part of Noble's wider research and development effort.

Installing energy efficiency equipment and analytics tools will serve to collect and measure emissions data. The conversation turned to Noble's intentions for disclosure and ESG reporting, and we learned that the company has a reporting workstream set up, with a comprehensive ESG report planned for release in 2024. We expressed our views in favour of more disclosure through platforms and frameworks like CDP, the Task Force on Climate-related Financial Disclosures and the Global Reporting Initiative and explained how we, as investors, use these resources to conduct ESG analysis of our holdings. We also encouraged the company to engage with ESG ratings providers such as MSCI, especially as Noble scores poorly on safety.

Though operating in an indisputably 'dirty' sector, Noble emphasised its commitment to the energy transition by pointing to its Decarbonisation Taskforce and Steering Committee equipped with resources to drive operational changes. We are still learning about this company after its emergence from bankruptcy and the recent merger, and we hope to see it evolve towards more sustainable practices over time.

VOLKSWAGEN

We have long held Volkswagen in the portfolio and have engaged with the company over many years. We continued this dialogue during 2023, meeting with the investor relations team to address our concerns about governance and Volkswagen's supply chain.

Given the company's extensive supply chain, we discussed at length the responsible sourcing of critical raw materials and how Volkswagen monitors its supply chain. With over 60,000 suppliers, Volkswagen focuses on those providing most of the purchasing volume and has a certification process in place for all suppliers. The company reports annually in a separate Responsible Raw Materials Report, detailing its progress on risk management and transparency in its raw materials supply chain. In 2021, the company also joined a pledge for a moratorium on deep sea mining and publicly committed not to source minerals from the deep seabed.

Also within the supply chain, we were concerned about ongoing allegations of the use of forced labour, specifically the hiring of ethnic minorities in China through so-called labour transfer programmes. Earlier this year, MSCI deemed the issue a failure to comply with the United Nations Global Compact, which can have negative ramifications. The company confirmed an internal review has been conducted but MSCI requires a third-party audit before it will revisit its assessment. Given China's strategic importance to Volkswagen, the company is sensitive to maintaining good relations with Chinese authorities and is unlikely to submit to a third party assessment. We discussed the company's wider relationship with MSCI and other ESG ratings agencies and its intention to provide enhanced disclosure.

On remuneration, we asked for an explanation for the increase in executive pay, which seemed high. We also discussed the board structure, as the current CEO of Volkswagen is also the CEO of Porsche. We were informed that robust governance measures were in place to avoid any conflict of interest, which reassured us, given that the CEO's dual role is unlikely to change in the near future. With respect to the audit committee not being fully independent, we expressed our preference for new appointees.

We plan to continue our dialogue with Volkswagen and will use future meetings to discuss energy transition opportunities in the context of the company's wider corporate strategy.

ARCELORMITTAL

We are long-term investors in ArcelorMittal, a global leader in steel production, and have engaged with the company for many years, both collaboratively (as co-lead investor of the Climate Action 100+ initiative working group) and independently. We met the company twice this quarter, to discuss ESG progress, health and safety, and the energy transition.

The first meeting, with the investor relations team, provided an insight into the ESG progress the company has been making over the past few months. Given the nature of operations in the steel-making industry, we addressed health and safety considerations and how these risks are being managed in certain jurisdictions more prone to accidents, especially in light of a large number of fatalities last year. The company assured us that it is working with consultants and implementing controls and systems, and its 2023 investment programme will focus on upgrading equipment and acquiring new tools, as well as offering training to employees and contractors. The ties between health and safety performance and executive remuneration have been strengthened, featuring in both short-term and long-term incentive plans.

Historically, the main focus of our engagement with ArcelorMittal has been the company's transition to Net Zero. The company has committed to reducing its European CO_2 emissions by 35% by 2030 and to be carbon neutral globally by 2050. We also discussed how ArcelorMittal could harness green steel as a competitive advantage and how it is preparing to align its reporting with a new European framework.

Our second meeting was with the head of ArcelorMittal's XCarb innovation fund, which seeks to invest in the development of breakthrough decarbonisation technologies. We discussed the strategy of the fund and how its investments are driving ArcelorMittal's decarbonisation strategy. The company has invested almost $160 million in disruptive sectors such as hydrogen production, clean energy, long-duration energy storage and novel steelmaking processes. We encouraged the company to better articulate to investors how its venture capital activity is shaping ArcelorMittal's understanding of transition pathways and the implementation of its Net Zero plan. We look forward to seeing further details of ArcelorMittal's progress and targets in its next Climate Action Report and we will analyse where we can urge the company to make further improvements.

Voting in focus

Voting and engagement make up the twin pillars of stewardship and, whilst we engage with companies year-round, voting season is generally concentrated in the second quarter. We take our voting responsibilities seriously. The opportunity to vote enables us to encourage boards and management teams to consider and address areas we are concerned about, or to show our support. We review relevant issues and exercise our judgement, based on our in-depth knowledge of each company, and we aim to be clear, consistent and thoughtful when casting our vote. We have a proxy voting policy and supplement this with internal voting guidelines that provide context for voting decisions.

GLENCORE

We voted to approve the 2022 Climate Report, despite ISS's recommendation to vote against. Questions persist over the company's alignment with the Paris Agreement, and ISS raised concerns about its investment in the energy transition, and its advocacy and lobbying activities. In our view, running off its coal assets over time is necessary if it is to align with the Paris Agreement, as the carbon reduction from the closure of coal assets would far outweigh any transition investments. However, we recognise that much of Asia relies on both thermal and metallurgical coal for its energy and industrial needs, and this demand is unlikely to change in the short term. Glencore's track record in reducing its emissions so far seems to be tracking the company's stated plans, so we are satisfied with its progress.

We also voted in favour of a shareholder resolution on the next climate action transition plan, in line with ISS and against management. The proposal seeks clarification and information in Glencore's next climate report, including disclosure of how projected thermal coal production and associated capital expenditure aligns with the Paris Agreement and the extent of any inconsistencies with the IEA Net Zero scenario timelines. We think the proposal to request additional information on the transition plan is the most appropriate next step.

AMAZON

We voted against two directors whose tenure breaches our internal threshold. Over-tenured directors can lead to entrenchment, which in turn can compromise independence and diminish a board's effectiveness in representing the interests of shareholders. We voted in favour of ratifying the named executive officers' compensation, against ISS's recommendation. Our view is that the company does not want employees to focus on short-term returns or discrete criteria at the expense of long-term growth and constant innovation and reinvention, a position we endorse.

There were a number of shareholder proposals on the slate at this year's AGM and, for the most part, we voted in line with ISS. We supported the request for a report on customer due diligence to determine whether customers' use of Amazon's products and services with surveillance, computer vision or cloud storage capabilities contributes to human rights violations. Such a report may highlight some concerning issues that, if addressed, could protect Amazon from reputational damage in the future. We also supported the request for a report on the impact of climate change strategy consistent with Just Transition guidelines as disclosure can help shareholders evaluate the effectiveness of the management of environmental and social risks. Other disclosures we supported included a report on climate lobbying, a report on gender and racial pay gaps, a third party audit on working conditions, a report on efforts to reduce plastic use and a study on the risks associated with the use of the company's Rekognition computer vision platform.

We did not support requests for a report on climate risk in retirement option plans, greater disclosure on government requests, a tax transparency report, a cost benefit analysis of diversity, equity and inclusion programmes, amendments to the company's byelaws, pay disparity disclosures, an animal welfare standards report or to establish a public policy committee.

BP

We voted against a shareholder resolution calling for BP to align its existing 2030 emissions reduction aims covering Scope 3 emissions with the goal of the Paris Agreement. ISS also recommended a vote against; whilst acknowledging the merits of the proposal, it noted that the proposal would represent a change in strategy, implying a potential constraint on the board's ability to develop and implement strategy. BP has, in our opinion, outlined a credible transition strategy with appropriate decarbonisation targets that reflects demand for oil and gas derived energy whilst allocating up to $8 billion more to its 'transition growth engines'. Although BP has tightened and reduced its 2025 and 2030 aims, it has retained its 2050 Net Zero target. BP argues the transition is uncertain, so locking into one, fixed strategy (through investing or divesting the wrong asset) will not help to generate shareholder value.

The resolution asks BP to align its 2030 Scope 3 aims with Paris. We agree with ISS that this would require a wholesale shift in strategy, which we believe is unnecessary given the board has opined on Net Zero and already published its plan. Secondly, BP has no control over what global Scope 3 emissions should be under the Paris Agreement, as the world continues to emit carbon and the Scope 3 reduction will probably have to be steeper the nearer society gets to 2030. This burden is unfair, particularly in the context of BP making long-cycle investment decisions and the fact that its downstream Scope 3 emissions will be significantly influenced by future developments in energy and transportation infrastructure and government policy.

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 boom and 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