Ruffer LLP

Environmental, Social and Governance Report

for the year ended 31 December 2016

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About Ruffer

Ruffer is an active fund manager focused on generating positive returns for clients, regardless of how the financial markets perform. We believe our distinctive approach to investing is well suited to the needs and goals of many charity, pension fund and private clients. As at 31 March 2017, we manage over £21.4 billion for our clients.

At Ruffer, we have a distinctive approach to investing. Our focus is on delivering stable 'all weather' investment returns and on protecting and growing the value of our clients' assets throughout the market cycle. We define our approach through two investment aims

- not to lose any money in any rolling twelve-month period
- to grow funds at a higher rate than would be achieved by depositing them in cash

We conduct our own research, actively manage investments and operate freely, without the straightjacket of relative return or market benchmarks. The majority of our investments are in traditional asset classes, such as equities, bonds, currencies and in-house funds.

At the heart of our investment approach is an asset allocation which always maintains a balance of growth and protection investments. Protective assets should perform well in a market downturn and defend the portfolio value; those in growth, principally equities, should deliver good returns in favourable market conditions. The blend of offsetting investments reflects the prevailing risks and opportunities that we see in financial markets, rather than any pre-determined allocation. We operate without the constraints of benchmarks that institutional investors have historically been tied to.

Ruffer is a signatory to the UN PRI, the UK Stewardship Code and the Japan Stewardship Code.

Introduction

Welcome to Ruffer's third annual environmental, social and governance (ESG) report. We started 2016 by strengthening our commitment to shareholder responsibility and stewardship by becoming a signatory to the UN-supported Principles for Responsible Investment (UN PRI). The UN PRI has received endorsement from over 1,400 global investors. The principles provide a framework for investors to give consideration to environmental, social and governance issues. In the first quarter of 2016, we completed the UN PRI database for the first time and received a positive response in the subsequent assessment report. Our public responsible investment report can be found on the PRI website at www.unpri.org.

In a meeting at the Investment Association in October 2016 we had the opportunity to discuss the future strategy of the UN PRI with Chairman Martin Skancke and CEO Fiona Reynolds. One of the main points of focus was the direction of the six principles (available in the appendix) and discussing if the principles should be reviewed after being in place for ten years. The overarching opinion was that the principles should stay in place but reporting on the principles should also include the Sustainable Development Goals (SDG) which were signed off by 194 nations in 2015.

SDG event in January 2017

Ruffer hosted our second ESG leadership breakfast in January 2017 entitled 'Sustainable Development Goals and the role investors can play'. A lively debate ensued on how meeting the SDGs can be seen as a driver for global GDP growth, how failure to meet the SDGs may create risks for specific business sectors and geographies and how investors can integrate the SDGs into fundamental analysis, align impact with financial performance and support companies which are on the pathway to transition.

FRC review of the Stewardship Code

In December 2015, the Financial Reporting Council (FRC) announced it would undertake a review of the Stewardship Code's signatory statements to distinguish those whose reporting is of high quality and those where improvement is required. We were proactive in reviewing our response to the Code and engaged with the regulator. Our efforts were well received and the FRC assessed Ruffer's response as Tier 1 which is defined as 'Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.'

Our updated version of the stewardship response can be found on our website at www.ruffer.co.uk.

Voting activities in 2016

The 2016 aggregated voting data analyses Ruffer's overall voting across Ruffer funds, institutional and private client holdings. Ruffer votes on holdings which we deem to be, in aggregate, a material holding for our clients or where we hold a material stake in the company. We will also vote in other circumstances where we believe it is in our clients' best interests. Voting activities increased in line with the overall increase in ESG engagement.

Active stewardship enables investors to provide feedback to the board while encouraging board and management teams to consider and address investor concerns. We review local best practices and corporate governance codes when voting clients' shares, and actively consider companies' explanations for not complying with best practice to ensure we vote in the best interests of our clients. We will vote against a company's proposals if engagement fails to resolve our concerns. It is Ruffer's policy to vote on AGM and EGM resolutions, as well as corporate actions where Ruffer's clients have a material interest in the company and/or the value of the holding is material to Ruffer's clients (unless voting is not in clients' best interests, eg in markets where share blocking applies or where, after due consideration, not casting a vote is the preferred course of action).

Ruffer will normally vote on corporate actions where it is necessary to do so. Ruffer applies this policy across all shares held, both domestic and international, reflecting the global nature of its investment approach. Ruffer often votes in other circumstances if we deem it to be in our clients' best interest.

Voting summary

In gathering information and making our final voting decisions, we place great value in engaging with companies and their advisers. Each analyst is responsible for reviewing the relevant corporate governance issues on a case-by-case basis and exercising their best judgement based upon their deep knowledge of the company. We view each proxy voting decision as an opportunity for analysts to gain additional insight into companies. In forming our voting decision, we take into account any issues raised by our proxy voting research provider to assist in its assessment of company resolutions and identification of contentious issues. These include the Investment Association's Institutional Voting Information Service (IVIS) and Institutional Shareholder Services (ISS). For ESG research we subscribe to EIRIS. Although we are cognisant of proxy advisers' voting recommendations, we do not delegate or outsource our stewardship activities when deciding how to vote our clients' shares. Equally we do not automatically support boards. We would look to discuss with management any situation where we felt there was a relevant or material issue that could impact our investment in the company. In some situations this could lead to instances where we vote against management. In these circumstances it is likely that our intention would have been communicated prior to the vote being cast.

Meeting overview

	2015		2016	
Number of meetings voted	139	%	192	%
At least one vote against, withhold or abstain	20	14.4	33	17.2
Number of items voted	1,165	%	1,903	
For	1,119	96.1	1,817	95.5
Against	32	2.7	56	2.9
Abstain	14	1.2	30	1.6
Against management	52	4.5	74	3.9
Shareholder proposals	18	1.6	33	1.7

Analysis of votes against management in 2016

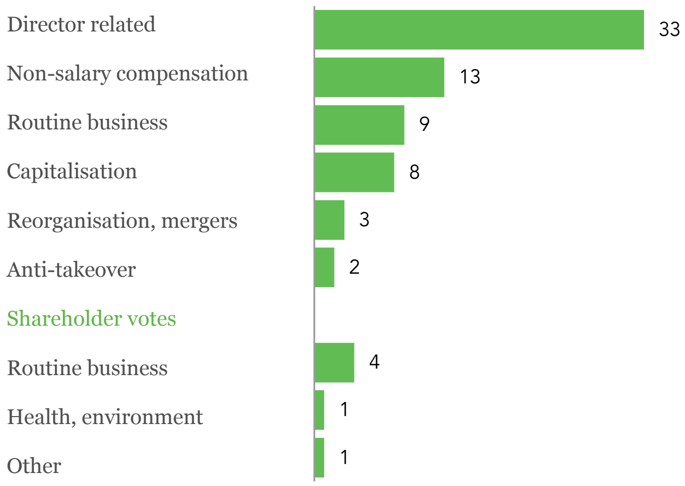
The following chart shows 'against management' votes broken down by resolutions. For example, the anti-takeover related resolutions we opposed are shareholder rights plans put forward for approval. We discuss the engagements we held on shareholder rights plans also often referred to as 'poison pills' in the engagement case studies section of this report.

We voted against a proportionally large amount of director related resolutions as a result of our internal understanding of independence as well as board effectiveness. More detailed examples can be found in the engagement section.

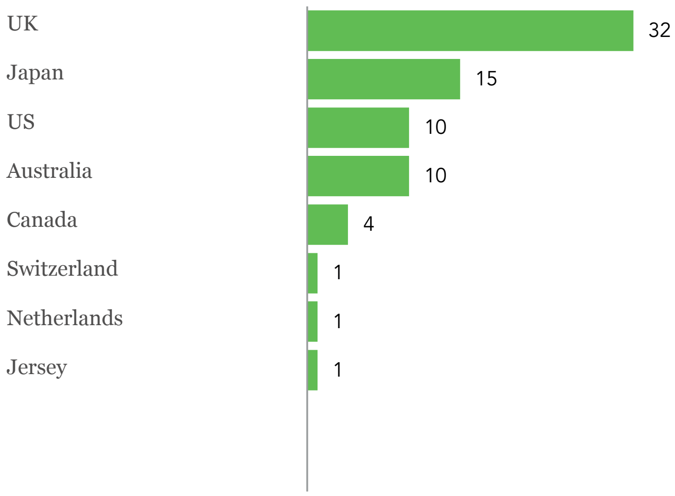
We also voted for number of shareholder resolutions which company management recommended to vote against.

One example is the climate resolution at the ExxonMobil 2016 AGM which was submitted by the New York State Common Retirement Fund and the Church Commissioners, which ask the company to report on the impact of climate policies by 2017. It requested ExxonMobil to publish an annual assessment of long term portfolio impacts of public climate change policies, at reasonable cost and omitting proprietary information. The assessment can be incorporated into existing reporting and should analyse the impacts on ExxonMobil's oil and gas reserves and resources under a scenario in which reduction in demand results from carbon restrictions and related rules or commitments adopted by governments consistent with the globally agreed upon 2°C target. The reporting should assess the resilience of the company's full portfolio of reserves and resources through 2040 and beyond and address the financial risks associated with such a scenario. The shareholder resolution was in line with our commitment to Aiming for A.

Votes against management



Geographic distribution of meetings



Engagement activities in 2016

We attended over 1,500 company meetings during 2016. We have highlighted below a number of specific ESG engagements we have had on diverse issues. The company engagements on ESG issues are aggregated and presented by issue and as detailed case studies. These include a description of when and where the engagement took place and, where possible, what the outcome was and whether the issues are still under review.

ESG engagement by issue

Board and director related	Remuneration	Capital structure	Re-organisation inc M&A
Mitsubishi Estate	Conviviality	Dai-ichi Life Insurance	Mitsubishi Estate
Standard Chartered	Standard Chartered	RungePincockMinarco	Mizuho Financial
Lockheed Martin	Man Group	Science Group	
Seven and I	Mizuho Financial		
Endeavour Mining	Hoshizaki		
Mizuho Financial			

Accounting, audit, bribery and corruption	Environmental and sustainability	Social	Shareholder rights plan
Hitachi	Hoshizaki	Goldfields	Mitsubishi Estate
Boeing	Lockheed Martin	Bellamy's	
	Goldfields	Swire Pacific	
	Swire Pacific		

Engagement themes in 2016

Remuneration

During 2016, two FTSE100 companies had their remuneration reports voted down. Other companies received significant negative votes for a range of issues, including the link between pay and performance and substantial increases to potential remuneration.

In launching her leadership campaign, the UK Prime Minister raised three particular issues in relation to helping to rebuild trust on executive pay, including giving shareholders binding rather than advisory votes, improving transparency of bonus targets and pay multiples and simplification of bonus pay and longer term alignment between the company and shareholders.

In November 2016, the Department for Business, Energy and Industrial Standards (BEIS) issued a corporate governance reform 'Green Paper'[1] which sets out 'a new approach to strengthen big business through better corporate governance.' In the introduction, it stated that 'it is clear that in recent years, the behaviour of a limited few has damaged the reputation of the many.' The Green Paper focused in particular on updating the UK corporate governance framework with regards three issues

1. How shareholders can influence executive pay, against a backdrop of this having grown much faster over the last two decades than pay in general and ahead of typical corporate performance.
2. Whether there are measures that could increase the connection between boards and other groups with an interest in corporate performance such as employees and small suppliers.
3. Whether some of the corporate governance features should be extended to the largest privately held companies.

1 Corporate Governance Reform, Green Paper www.gov.uk/government/uploads/system/uploads/attachment_data/file/584013/corporate-governance-reform-green-paper.pdf

The consultation period on the paper closed in February 2017. Ruffer engaged in the debate and the response through our participation in the Remuneration and Share Scheme Committee of the Investment Association. The committee meets every six weeks to discuss experiences in engaging with companies on issues in relation to executive pay issues. We also respond collectively as a member organisation to issues raised by the government.

Outlook 2017 – binding votes 'say-on-pay'

2017 may prove to be a challenging year at AGMs in the UK. Some of the largest listed companies will see their remuneration policies scrutinised more closely as shareholders have their second binding vote since the legislative reforms took effect in October 2013. Since the introduction of the reforms, shareholders have had a binding vote on a resolution to approve the directors' remuneration policy. The remuneration policy sets out how the company proposes to pay directors, including every element of remuneration that a director will be entitled to and how it supports the company's long-term strategy and performance. The policy also includes details of the company's proposed approach to recruitment and loss of office payments. Companies must put the remuneration policy to a shareholder resolution at least every three years. If a company wishes to make any changes to the remuneration policy it will have to put the new policy to shareholders for approval at a general meeting.[2]

In addition to the remuneration policy a company has to produce an annual implementation report on how the approved pay policy has been implemented, including a single figure for the total pay directors received that year. This will allow shareholders to make comparisons year-on-year

2 www.gov.uk/government/uploads/system/uploads/attachment_data/file/158048/13-727-directors-remuneration-reforms-faq.pdf

and between companies. In 2016 companies experienced a greater degree of shareholder discontent and companies such as BP, Shire and Smith & Nephew saw their remuneration reports rejected, albeit not in binding but advisory votes.

Binding vote – what are the consequences?

If the shareholder resolution on the remuneration policy is not passed, a company will have three options

1. Continue to operate according to the last remuneration policy to have been approved by a shareholder resolution.
2. Continue to operate according to the last remuneration policy to have been approved by a shareholder resolution and seek separate shareholder approval (via a resolution at a meeting) for any specific remuneration or loss of office payments which are not consistent with the policy.
3. The company may call a general meeting and put a remuneration policy to shareholders for approval. This could, but need not be, an amended version of the policy last put to shareholders for approval.

Remuneration in Japan?

Remuneration was not just the mot du jour in the UK's corporate circles in 2016, but has also gained much attention in Japan. Executive pay in Japan did not receive the same amount of attention as UK or even US companies receive from investors, because directors' salary levels were, and still are, considerably lower. However investors are paying more attention to 'intangible benefits' such as retirement benefits, which are unaccounted for, as well as how to align directors pay with performance and shareholder value.

Currently companies remunerate their directors with a much larger fixed portion than in the US or UK. Executive compensation in Japan, on average, comprised of 59% fixed compensation and 41% variable pay, whereas directors in the UK receive on average 25% fixed pay versus 75% in variable compensation.[3]

All changes on the corporate governance landscape in Japan will no doubt include a closer alignment of incentives with business results and greater involvement of independent directors to ensure transparency and objectivity in executive pay, especially as Japan's governance code requires companies to encourage more risk-taking to achieve mid- or long-term business growth.

Japan

Remuneration was only one of the topics on the stewardship agenda in Japan in 2016. We spoke with many Japan specialists regarding corporate governance changes and challenges. The other main issue we focused on was changes to the board of directors. Many companies debated whether they should adopt the more Western-style three committee board to include audit, nomination and remuneration committees. This process triggered questions surrounding the criteria and process for selecting and nominating new outside directors, as well as evaluating the general effectiveness of the board. Companies have spoken to us about small but meaningful and practical changes made to the ways boards conduct their business, for example, efforts on making boards more effective have focused on reducing the number of items discussed during board meetings, as the reviews revealed that many important issues were hardly discussed.

3 www.towerswatson.com/en-GB/Insights/Newsletters/Global/executive-pay-matters/2016/Evolving-Governance-Environment-Brings-Changes-Exec-Pay-Programs-Japan

The role and development of GPIF in stewardship activities

In September 2015, the largest pension fund in the world, the Japanese Government Pension Investment Fund (GPIF), signed the Principles for Responsible Investment (UNPRI) and its CIO, Hiromichi Mizuno, was elected as an asset owner representative on the PRI board in November 2016. In January 2016, the GPIF initiated a survey among JPX400 companies on engagement dialogue and quality; 64% of the companies noted that since the Japan Stewardship Code was adopted, they have seen positive changes in the engagement attitudes of investors.[4]

The GPIF has established the Business and Asset Owner Forum as well as the Global Asset Owner Forum which includes other large asset owners such as CalPERS and CalSTRS.[5]

At the beginning of March 2017, a report backed by the Japanese Ministry of the Environment was released calling for institutional investors to adopt the ideas and methods of responsible investors, as a response to the rising awareness of international crises shaped by global sustainability issues impacting financial and economic activity. Japan's Working Group on Incorporating Issues Regarding Sustainability into Investing (ESG Working Group), whose secretariat is based in the Ministry, has produced a guide for stakeholders in the institutional investment chain to improve their fundamental understanding of ESG investing and use it effectively.[6]

Furthermore, the Japanese Financial Services Agency (JFSA) has also announced that it will amend its Stewardship Code to encourage institutional investors (asset owners and asset managers) to constructively engage with the companies they invest in to better the interests of ultimate beneficiaries, ensure asset managers serve the best interest of customers by strengthening governance and management over conflicts of interests arising from their relationship with affiliate companies and promote engagement of asset owners (such as pension funds) with asset managers for enhanced stewardship activities.[7]

4 www.gpif.go.jp/en/topics/pdf/20170203_report_of_stewardship_activities_2016.pdf

5 California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) are both known for their involvement in shareholder activism

6 www.env.go.jp/press/103720.html

7 www.fsa.go.jp/en/news/2016/20161130-1/01.pdf

Engagement case studies

Q1 2016

Mitsubishi Estate

Main activity
Real estate. Japan's second-largest real-estate developer and investor.

Issue
Governance

Context
Update on governance code implementation and committee structure.

Details
We met the company at our offices to discuss the following corporate governance items: board structure, independent directors, cross-shareholdings, board evaluations, shareholder rights plans.

Board structure and independent directors: the company has taken pressure from (mainly foreign) investors on board to change directors that were not deemed to be independent at the 2014 AGM. Shareholder approval rates were lower for non-independent, non-executive directors than for the rest of the board. New appointments were made at the 2015 AGM. The new appointments bring the share of independent outside directors up to 30.8% which is a relative high figure in the Japanese context. The company stated that at the next AGM it will propose to raise the percentage of independent directors to 33% or higher. However, more concrete succession plans had not been formulated. The reasons for appointing the new directors were to increase the gender and skill diversity of the board. One of the directors has experience as a diplomat, whereas the other (female) director is a professor of marketing. The areas of responsibility for directors were also discussed. Independent directors are responsible for director pay, as well as nominating new executive and non-executive directors. It was stated that responsibilities for independent non-executives will be increased in the future. Furthermore the company explained that the board structure is currently under review. The two models discussed were 1) traditional board with external auditors (kansayaku) or 2) UK like board structure with audit, nomination and remuneration committees. A decision on the board structure is to be made by March 2016. Subsequently the company announced that it has adopted a board with a three committee structure.

Cross-shareholdings: the company stated that the issue of cross-shareholdings is being discussed at board level. However, if shares have little meaning to the company, a quick disposal will be facilitated.

Board evaluation: the company explained why a formal board evaluation has not been conducted yet. It stated that an evaluation was planned for post March 2016 decision on the changes to the company's board structure (board with outside auditors or three committee board) in order to attach meaningful KPIs etc to each function of the board.

Shareholder rights plan8: the company explained its position on the current shareholder rights plan (SRP) and its objectives. The plan has been in place since the 2013 AGM when it received 59.6% approval. ISS recommended an 'against vote' on the basis of the company's large market in the overall real estate industry, not in relation to the qualitative criteria that ISS has laid out. The current SRP will expire at the 2016 AGM. The company is of the opinion that an SRP is still necessary, so will propose a renewal at the AGM. The company stated that it is aiming to engage ISS, before the AGM, on SRP-related issues. We voted against the SRP, as we feel that it is not in line with shareholder interest. We are regularly engaged on ESG issues with the company.

In Q2 we engaged with the company prior to the June 2016 AGM on the appointment of three new independent directors as well as the renewal of its shareholder rights plan ('poison pill'). The company explained in detail new features of the plan, which includes improved trigger mechanisms which have to be approved by an independent committee. We agree that the shareholder rights plan was significantly improved in terms of transparency, however, we still feel that it is not in alignment with shareholder value and have therefore voted against the resolution at the AGM.

8 A shareholder rights plan, also often referred to as a 'poison pill', is a type of defensive tactic used by a corporation's board of directors against a hostile takeover. Shareholder rights plans are controversial as they hinder an active market for corporate control.

Hitachi

Main activity

Electrical power equipment. Multinational industrial conglomerate.

Issue

Corporate governance

Context

Bribery allegations

Details

We have engaged with the company in relation to the following bribery allegations: in September 2015, the company agreed to pay US$19m (£12.4m) to resolve allegations brought by the US Securities and Exchange Commission (SEC) that it violated US anti-bribery laws in South Africa. The SEC alleged that the company sold a 25% stake in a South African subsidiary to a company serving as a front for the ruling African National Congress (ANC) and paid the front company about US$5m in 'dividends' derived from profits on two contracts to build power plants in South Africa. The SEC alleged that the company paid the front company an additional US$1m in 'success fees'. As a consequence, the ANC would allegedly receive a share of profits from any power station contracts that the company secured. The company allegedly identified Chancellor House Holdings Ltd in 2005 as a potential partner in South Africa and according to the SEC, only performed a couple of days' worth of due diligence on it. The SEC also alleged that the company was 'unable to locate' the due diligence report during the course of its investigation. The SEC claimed that the company was aware Chancellor was a funding vehicle for the ANC and it encouraged Chancellor to use its political influence to help obtain government contracts. The company then allegedly paid 'success fees' to Chancellor when the company won contracts to provide Eskom with boilers for the Medupi and Kusile power stations in 2007, recording them inaccurately in financial records, according to the SEC. In the initial engagement with the company, we were told that no further details in relation to the allegations could be made available, due to a non-disclosure agreement in the settlement. However, the company agreed to provide further information on future changes to its anti-bribery systems such as training of its intermediaries and contractors and compliance monitoring in high risk countries such as South Africa.

Conviviality

Main activity

Retail. UK alcohol led convenience chain and wholesaler.

Issue

Governance

Context

Engagement on new remuneration proposal.

Details

We met the company at our offices to discuss changes to the remuneration policy, as well as general succession management. The company's CEO outlined changes at senior management level and the need to align the remuneration policy accordingly, including the long-term incentive plan (LTIP). She explained the changes and the process of drafting the new policy. We discussed in detail the motivation for the non-deferral of the first tranche. According to the company, this was to keep the existing management and provide an immediate pay out for the new people. Deferral would then be implemented as the scheme rolls forward. Furthermore we asked about the possibility of major management upheaval in three to four years time as a result of the new LTIP.

We talked through the mechanics of the scheme, with our major question mark around the setting of the base EPS level at an appropriate level. Overall we felt that there was further evidence that the management was focusing on expanding the business and that the LTIP was to be structured with this in mind. We will stay engaged with the company.

Hoshizaki

Main activity
Industrial machinery. Mainly provides kitchen equipment and related maintenance services.

Issue
Corporate governance, environment

Context
Japanese governance code, disclosure, GHG emissions.

Details
We engaged with Hoshizaki regarding its disclosure in English. Ruffer noticed a significant lapse of time between its financial reporting in Japanese and its reporting in English. This also applies to reporting on issues in relation to the Japanese Governance Code. Disclosure in English has been highlighted as a major issue in relation to corporate governance barriers in Japan.

We engaged in detail on its greenhouse gas emissions and in particular on its hydrofluorocarbons (HFC). We asked the following questions – 1) Has the company completely phased out HFC in its refrigeration units? If not what percentage is still using HFC? If there are still HFC refrigerants is the company planning on phasing this out? 2) Has Hoshizaki conducted product lifecycle assessments? Does the company actively manage its energy footprint? If yes then how?

The company responded that they are not recording quantitative information about refrigerant of Hoshizaki group.

We highlighted this issue to the company as Japan's Intended Nationally Determined Contributions (INDC), as submitted to the 2015 climate change summit in Paris, included a commitment to reduce fluorinated gases. We will keep this issue under review and the company engaged.

Q2 2016

Boeing

Main activity
Aerospace and defence. Design, development, manufacture, sale and support of commercial jetliners and military aircraft.

Issue
Corporate governance

Context
Bribery

Details
As a relatively new shareholder, we asked to engage with the company. We mainly discussed the proposals at the upcoming AGM, which we felt were uneventful, but also enquired about the company's statement on bribery and corruption on its website. Ruffer felt that the statement did not restrict the giving and receiving of bribes. The company acknowledged our statement and informed us of subsequent changes to the website which now makes a satisfactory anti-bribery policy available.

Endeavour Mining

Main activity
Mining. Intermediate gold producer, focused on mines in the West African region.

Issue
Corporate governance

Context
Board composition

Details
Ruffer engaged with Endeavour Mining's board regarding its overall structure and specific succession plans. We believed Endeavour needed to improve its corporate governance and a transition from CEO to Chairman is considered contrary to best practice. We believe it is generally unhelpful for a previous CEO to retain a senior role in a business, especially where that CEO has held the position for a long time and been very successful. At the 2016 AGM, it was announced that the ex-CEO would not seek a nomination to the board, and as a result, will cease his role as director at the completion f the meeting.

Standard Chartered

Main activity

Diversified bank. Multinational banking and financial services company headquartered in London. Despite its UK base, it does not conduct retail banking in the UK, and around 90% of its profits come from Asia, Africa and the Middle East.

Issue

Corporate governance

Context

Remuneration, succession planning

Details

The company asked Ruffer to engage on issues regarding its new remuneration policy and plans for finding a new chairman. We provided feedback on the new policy and indicated that the company was making good progress, albeit against a low benchmark. We felt the remuneration changes had been simplified and standardised towards best practice, in terms of shareholdings versus cash and deferral and we indicated approval. We emphasised we felt strategic objectives should have been a higher proportion of the mix (ie less than 50% rather than a one-third) particularly for the LTIP. Our points were taken on board. Furthermore we discussed other shareholders' views – trend to higher financial targets as a proportion and the input of the regulators, who lean towards strategic targets including risk. The low annual bonus in the early years, coupled with a higher LTIP, and then fading both was an interesting mechanism for incentivising shareholder-friendly behaviour.

We were interested in understanding how incentivising is cascaded down below board level. The company stated that 270 managing directors have a very similar structure to the executives, dominated by LTIP and with lower cash bonus in the initial years. They accepted that in recruitment, a lower annual cash bonus in early years could act as an impediment. This might have a positive impact on short term P&L forecasts.

Seven & I

Main activity

Retail. Convenience stores, superstores, supermarkets, department stores, specialty stores and restaurants.

Issue

Corporate governance

Context

Board structure

Details

We engaged with the company prior to its AGM in May 2016, during and after the departure of Chairman and CEO, Toshifumi Suzuki. He stepped down from the board over a dispute concerning the president of operating unit Seven-Eleven Japan.

RungePincockMinarco

Main activity

Software and services. Mining technology company providing integrated technology services, mining consulting and training in the area of mine planning.

Issue

Corporate governance

Context

Capital allocation

Details

Over several meetings, we discussed our views on the importance of capital allocation, and shared books and views from successful managers and capital allocators with management. In early 2016 we were happy to see Runge buying back its stock when the share price was particular weak, during a period when markets and commodity prices were suffering.

Lockheed Martin

Main activity

Defence. US aerospace, defence, security and advanced technologies company with worldwide interests.

Issue

Corporate governance

Context

Proxy statement/cluster munition

Details

The company communicated to EIRIS, as well as to Ruffer, that it 'has never been in the business of producing cluster munitions and has ceased all marketing of rockets, missiles or other delivery systems incorporating such warheads. The company will not accept future orders to produce such products. All current and future production of the Multiple Launch Rocket System (MLRS), Guided MLRS Unitary Rocket (GMLRS), and Army Tactical Missile Systems (ATACMS) family of missiles incorporates only non-cluster munition warheads. Additionally, two dormant contracts for cluster munitions delivery vehicles referenced in statements made previously by the corporation have now been officially terminated without further production. Lockheed Martin ceased production of the wind corrected munitions delivery kit in 2010.'

Our research provider EIRIS analysed the company's response and agrees the company is not involved in the making of rockets or integrating (not manufacture) of submunitions, however it takes a system to deliver the submunitions – otherwise the submunitions are not delivered to a battlefield to become a hazard. The question as to whether the new systems they were producing for MLRS were compatible, and designed to work with the existing huge stockpiles of cluster munition rockets that the US and other countries possess was not answered by the company. EIRIS believes that the company is continuing to produce parts which can be used with cluster munition rockets.[9]

EIRIS also specifically asked if an addition they were making to the updated systems (updated so that it can fire the 'alternative warhead' munition – which is not a cluster munition) would prevent it being used with existing cluster munitions, but the company did not want to answer this question, according to our research provider. Quite clearly, by keeping cluster munitions in their stockpiles, the US, and other governments, require an MLRS upgrade to be able to fire those cluster munitions. We have now largely sold our positions in Lockheed Martin.

9 EIRIS database: company profile Lockheed Martin

Science Group

Main activity

Support services. Outsourced science and technology based consultancy, advisory and product development services to a wide range of industries/markets.

Issue

Corporate governance

Context

Capital allocation

Details

Over several meetings, we discussed our views on the importance of capital allocation, and shared books and views from successful managers and capital allocators with management. We were pleased to note that Science Group's main shareholder and chairman has been an excellent capital allocator: over the years acquiring distressed assets and buying back the company's stock at times when the market price was much lower than the intrinsic value of the business.

Q3 2016

Dai-ichi Life Insurance

Main activity

Life insurance. Customers in Japan, US and Asia-Pacific.

Issue

Corporate governance

Context

Capital structure

Details

Following the introduction of negative interest rates in Japan at the end of January 2016, the life insurance companies, as well other financial institutions, have been under pressure from a lower and flatter yield curve. Economic value (solvency) based measures inevitably deteriorated sharply. We engaged with all of our life insurance company holdings as to whether they would be raising capital and in what form. The obvious risk being equity dilution. Dai-ichi Life Holdings has confirmed to us on a number of occasions it will not be issuing shares or cutting the dividend. The company decided to raise perpetual subordinated debt which we supported.

Q4 2016

Gold Fields

Main activity
Mining. Gold producer with operating mines in Australia, Ghana, Peru and South Africa.

Issue
Environmental and social

Context
SDGs, health and safety, company culture

Details
The company contacted us to introduce its new Head of CSR. We discussed the different approaches needed at the company's mines in Australia, South Africa and Ghana with regards to health and safety. We tried to gauge how cultural dispositions are addressed in their health and safety management, how incentives are set to encourage safe operations and how senior management is affected by mismanagement of its mines. We addressed water scarcity as an issue in the mining industry. We were also interested in understanding whether the family receives support in case of a fatality. Furthermore we discussed how the company is integrating SDG in its CSR activities and its reporting.

Mizuho Financial

Main activity
Financial services. Including banking, securities, trust and asset management services.

Issue
Corporate governance

Context
Board structure, remuneration, governance developments in Japan, unwinding of cross-shareholdings

Details
The Group CFO and Senior Investor Relations staff met the Ruffer team to talk about corporate governance and ESG related issues. Main issues were the effectiveness of the board, performance-related pay for directors, including a performance-based stock compensation programme, targets on disposal of cross-shareholdings until March 2019, as well as shareholder proposals put forward at the AGM in June 2016. We will monitor further developments on cross-shareholdings closely.

Man Group

Main activity
Investment management. Provider of alternative investment products.

Issue
Corporate governance

Context
Executive remuneration

Details
We met the new chairman of the Man Group remuneration committee at the their offices to discuss the proposed amendments to the company's remuneration report. We discussed the amendments the company has made to the short term basis, where concrete weightings were disclosed to shareholders. We indicated resistance to the trend of increased formulaic pay outs and in particular that the weighting attached to strategy was too low. We also discussed comparator groups the company is measuring itself against. As voting results were showing shareholder disapproval, we will stay engaged with the company. The remuneration policy will need to be renewed in the 2018 voting period.

ESG topics in 2016

Climate change update

In November 2016, less than a year after the topic was brokered at the 21st Conference of the Parties (COP21) in the French capital, the Paris Agreement[10] on climate change came into force. The deal has been hailed as a diplomatic success and its rapid ratification as unprecedented.

It commits the signatories[11] to follow through with their pledges to help contain global warming to within 2°C of pre-industrial levels as well as to strengthen the ability of countries to deal with the impacts of climate change.

From an investment perspective it lends more weight to the question of 'stranded assets'. One of the most important parts of the COP21 deal is that it is not merely an international agreement but one underpinned by national level action plans, the national determined contributions or NDCs. Over the coming years we should see these NDCs transformed into policy proposals – and it is at this point they will become relevant for all companies and investors.

The 22nd Conference of the Parties December 2016, Marrakech

One of the main outcomes of COP22 was the agreement of a work plan to implement the Paris Agreement objectives – 'The Implementation COP'.

Many discussions focused on potential pathways for hitting the US$100 billion per year target for green and climate finance by 2020. Added emphasis was put on adaptation financing[12], which is aimed at funding specific projects and programmes in developing countries that are particularly vulnerable to the adverse effects of climate change, as currently climate finance flows mostly focus on mitigation.

For the first time a COP also saw increased climate action activities from non-sovereign entities such as cities, states and corporates. 22 countries, as well as more than 30 cities, states and regions have produced decarbonisation plans up to 2050 via the '2050 Pathways Platform' to actively support the transition to a net zero-GHG and climate-resilient future.

Aiming for A

We continued to support the Aiming for A resolutions, entitled 'Strategic Resilience for 2035 in 2016'. The resolutions are intended to encourage companies to demonstrate good strategic carbon management by attaining (and maintaining) inclusion in CDP's Climate A List. The A List recognizes companies that have led the way in actions to reduce emissions and mitigate climate change in the past CDP reporting year. The shareholder resolutions are intended to challenge the companies to run their businesses so that they participate constructively in the transition to a low carbon economy.

Ruffer's common investment fund co-filed the shareholder resolution at the Rio Tinto AGM. The resolution gained overwhelming support with 99.2% that will see Rio Tinto's routine annual reporting from 2017 include further information about its climate change policy, emissions management, and the resilience of its portfolio to a carbon-constrained scenario for 2035 and beyond.

10 unfccc.int/paris_agreement/items/9485.php
11 144 parties have ratified of 197 signatory parties to the convention, countries that have ratified the convention include fossil fuel depended countries such Saudi Arabia, Brunei, Bahrain and United Arab Emirates as well as the biggest emitters of carbon dioxide such as China, India, USA, Japan and Germany.
12 unfccc.int/cooperation_and_support/financial_mechanism/adaptation_fund/items/3659.php

Ruffer also voted for the climate change resolution at ExxonMobil, asking for the oil company to publish an annual assessment of long term portfolio impacts of public climate change policies, at reasonable cost and omitting proprietary information. The resolution was supported by 38.1% of Exxon's shareholders.

Sustainable Development Goals and investment

In 2015, world leaders from all sectors signed off the three major sustainability mandates – the 2030 Sustainability Development Agenda, the Addis Ababa Action Agenda and the Paris Agreement on Climate Change. The 2015 Agreements provide a comprehensive, global strategy towards a fair, stable and sustainable society.

The Sustainable Development Goals[13], a successor to the Millennium Development Goals, which expired in 2015, address key global challenges, including poverty and inequality in an integrated and multi-stakeholder fashion. The Goals involve a set of 17 goals and 169 underlying targets, and were signed off by 194 member states and leaders. The SDGs substantially differ from the MDGs in that they call on the public and the private sector to cooperate with the signatory governments to tackle the most serious issues facing both people and the planet.

13 www.un.org/sustainabledevelopment/sustainable-development-goals

The UN are aware of the important role that business and the private sector have to play. A yearly financial gap between US$2.5 and 5 trillion has been identified by the United Nations Conference on Trade and Development (UNCTAD) which means that governments themselves cannot financially achieve the SDGs on their own.[14]

The agreement expresses a consensus by governments that the SDGs can only be achieved with involvement of the private sector working alongside governments, parliaments, the UN and other international institutions, local authorities, civil society, the scientific and academic committees. The private sector can back many SDGs directly, especially in relation to infrastructure, by investing in power generation, renewable energy, transport and water.

Ruffer hosted a leadership breakfast seminar on the 'SDGs and the role investors can play' in January 2017. After four presentations, there was a debate on how meeting the Sustainable Development Goals can be seen as a driver for global GDP growth, how failure to meet the SDGs may create risks for specific business sectors and geographies, and how investors can integrate the SDGs into fundamental analysis, align impact with financial performance and support companies that are moving towards incorporating SDGs.

14 unctad.org/en/pages/PressRelease.aspx?OriginalVersionID=194

Stewardship

The following article appeared in the Annual Charity Finance Yearbook 2017.

Stewardship – responsible ownership

'In economics, things take longer to happen than you think they will, and then they happen faster than you thought they could.' Rudiger Dornbusch

In line with Dornbusch's famous description of progress in economics[15], the article below explores whether the concepts of stewardship and responsible ownership are gaining momentum in the UK since the first version of the UK Stewardship Code was published in 2010 by the UK's Financial Reporting Council (FRC). The code was issued in response to criticism about the role played by institutional investors in the run-up to and during the 2008 financial crisis, and was aimed at improving the quality of engagement between investment managers and companies.

Stewardship – a global phenomenon

Following the publication of the UK code, other countries followed suit with their own version of stewardship codes including the Netherlands, South Africa, Switzerland, Canada, Japan, Kenya and Italy. Stock exchanges in other jurisdictions have taken the lead by implementing mandatory or voluntary listing rules focusing on environmental, social and governance (ESG) issues as is the case in Malaysia, Singapore, Hong Kong and Mexico. The focus is to encourage companies and investors alike to incorporate some form of stewardship into their investment decision making process.

Shareholder spring, summer – and autumn next?

In 2012, there was a notable breakdown in discussions between several corporate boards and institutional investors over concerns that companies were persistently rewarding executives with multi-million pound bonuses despite anaemic performance. This breakdown and several subsequent voting outcomes at AGMs at large listed UK companies led to the so-called 'shareholder spring'.

In October 2013, the UK government responded by giving shareholders an additional tool by introducing binding votes on companies' pay policies every three years. With regards to executive pay and collective shareholder stewardship, the proof will be in the pudding when shareholders vote on the second round of binding votes in 2017. A foretaste of possible things to come could already be observed during the 2016 voting season. Shareholder disapproval was felt at many AGMs such as BP, Shire and Smith & Nephew, all of which saw their remuneration reports rejected by a large number of their shareholders.

Reason for hope?

Does the change in voting habits shown by the example of executive pay warrant drawing the analogy further, and concluding that stewardship and responsible ownership are now taken more seriously at investor and asset owner level? If one trusts the increasing number of signatories to the UN Principles for Responsible Investment, (as of April 2016 the PRI had 1,500 signatories from over 50 countries, representing US$62 trillion assets under management), or the rapid adoption of the Stewardship Code in Japan, it may be concluded that stewardship responsibilities such as active voting, placings of shareholder resolutions, collaborative engagement with other shareholders or engagement with policy makers and industry groups are indeed being integrated more strategically into the investment decision-making process.

15 Dornbusch, R: A Primer on Emerging Market Crises. MIT 2001

Being able to pool resources and combine ownership stakes for the purpose of engagement can be very effective for investors, especially since it can take months or years to achieve an outcome from such engagement efforts. Shareholder stewardship in general, and ESG engagement specifically, may be seen as an integral part of the investor toolbox for managing risk, advancing ethical values, and contributing to more sustainable companies. It is a long-term process, which requires a structured approach and patience.

Stewardship in manager selection

A charity can actively align its core values with the fundamental practices inherent in the ideals of responsible ownership and stewardship by including these issues in the investment manager selection process.

A good place for a charity to start is to formalise a 'responsible investment' policy by identifying the core high-level beliefs that are central to the organisation. It is likely that the responsible investment policy will be informed by these beliefs and strategic investment approach. The organisation's culture and values should be appropriately reflected in the policy.

Charities may want to seek to select managers who are committed to both the integration of ESG factors into their investment process, and who conduct active stewardship with the companies they invest in on their behalf. Charities concerned about responsible ownership should enquire whether a (prospective) manager's voting and engagement activities are in line with their expectations. To ensure that ESG-related criteria are systematically applied, co-operation between the charity and the investment managers is required to ensure that this is fully integrated into the investment manager's investment process.

As a next step it may be important to understand whether the investment manager discloses these activities in a timely, meaningful and robust manner. Furthermore the charity may want to monitor if investment managers escalate engagement where there are concerns in regards to a company's performance, strategy, governance or the management of environmental or social risk. To further a charity's intrinsic values investment managers may be encouraged to engage on a charity's behalf.

Positive cooperation between a charity and their investment manager with regards to stewardship activities such as active voting and goal-oriented engagement can challenge and change corporate conduct, channel innovation, increase risk awareness as well as extend the communication and implementation of a charity's fundamental beliefs into their investment decision process.

The regulator is naming and shaming laggards

Outside the manager appointment process charities will also be able to understand the level of stewardship an investment manager undertakes once the FRC announces the results of its review.

The FRC announced in December 2015 that it would undertake a review of the Stewardship Code's signatory statements to distinguish those whose reporting is of high quality and those where improvement is required. The review will conclude with assessing and rating fund managers on their level of engagement with the UK's Stewardship Code. The regulator will rate fund managers as tier 1 that are meeting all requirements and tier 3 that are failing to do so. The review aims to improve the quality of reporting so that asset owners can understand the approach to stewardship of the manager they are employing.

Future launches of stewardship codes in several countries including Singapore, Brazil and South Korea are part of a broader move towards global adoption of stewardship rules, as regulators increasingly recognise the role of investors as enforcers of improved corporate governance and responsible corporate behaviour. The concept of stewardship is further strengthened by regional mandates such as the European Shareholder Rights Directive and global standards such as the G20 OECD Principles of Corporate Governance.

Where are we now?

The corporate and investment management worlds are undergoing a seismic shift. 'Sustainable' or 'responsible' investing is crossing the so-called chasm into the mainstream of the investing world. Being a signatory to the PRI seems no longer a 'nice to have' but a necessity, especially when managing monies for charities. But while enormous progress has been made in this regard, there is clearly more still to do.

Franziska Jahn-Madell, Ruffer LLP
March 2017

Company case studies

As an active investment manager equity analysts play a crucial role in identifying companies that are suitable for our portfolios. In our annual ESG reports, we highlight some companies which we feel have some outstanding ESG credentials, are crucial in the energy transition initiative or are furthering the Sustainable Development Goals.

Tokio Marine, a large cap Japanese insurance company, has been heavily engaged in the climate change debate for a considerable number of years. We would also like to highlight Ceres, a small cap company listed on the London Alternative Investment Market, who are developing new generation fuel cells, as well as Wacker Chemie who are involved in renewable energy and alternative energy. Finally, the Brazilian company Kroton, an education specialist in traditional tuition, as well as 'open university' style education, which makes learning, even in remote parts of the country, possible.

Our section on ESG company case studies aims to illustrate positive environmental, social and governance developments at companies in our portfolios and does not constitute investment advice, a personal recommendation or an investment recommendation and should not be used as the basis of any investment decision.

Tokio Marine (Japan)

Company overview

Tokio Marine Holdings is a full-line insurance group comprising non-life, life, reinsurance companies and others, including its major subsidiaries of Tokio Marine & Nichido Fire Insurance, Tokio Marine & Nichido Life Insurance, Tokio Marine Kiln Group, Philadelphia Consolidated Holding Corp, Delphi Financial Group, HCC, Tokio Marine Asia and Tokio Millennium Re.

ESG

Tokio Marine Group states that one of its core CSR themes is to promote initiatives to protect the environment. It has achieved carbon neutral status for three consecutive years by offsetting the CO_2 emissions from its business activities through CO_2 fixation and reduction through mangrove tree planting, use of natural energy and other measures.

The company was selected as a 'Nadeshiko Brand' for its efforts to promote empowerment of women in the workspace. The selection process is led by the Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange. Tokio Marine Group states that it 'works to create corporate cultures that promote the empowerment and growth of female employees.'[16]

In 2015, Tokio Marine & Nichido became a signatory to the Caring for Climate initiative driven by UN Global Compact (UNGC), the secretariat of United Nations Framework Convention on Climate Change and United Nations Environment Programme and contributed to the publication of A Caring for Climate Report 'The Business Case for Responsible Corporate Adaptation: Strengthening Private Sector and Community Resilience'. This contained an article on Tokio Marine's mangrove project 'Protecting Natural Resources and Building Local Resilience to Natural Disasters'. In 2008, the company had declared a commitment to maintain its involvement in mangrove planting projects as a protection of the global environment for the next 100 years. The company has promoted the project since 1999, and had planted 9,474 hectares of forest by the end of March 2016.

The company is a member of the United Nations

16 www.tokiomarinehd.com/en/ir/library/annual_report/h10q7e000000awak-att/AR16E_1_Tokio_Marine_Groups_Value_Creation_Model.pdf

Environment Programme Finance Initiative (UNEP FI) Insurance Working Group. It participates in surveys, research and advocates activities on sustainability in the insurance industry as a member of the Insurance Commission of the UNEP FI, as well as serving as its Board Member for Asia. In November 2011, the company and UNEP FI co-hosted the PSI Regional Consultation Meeting for Asia, which was attended by Asian insurance companies, reinsurers, academics and NGOs. Tokio Marine led discussions on such topics as 'The roles and responsibilities that should be fulfilled by the insurance industry toward the realisation of a sustainable society' and 'Agenda for action considering ESG in the insurance business. In June 2012, Tokio Marine & Nichido became a founding signatory of 'Principles for Sustainable Insurance (PSI)' which was launched by UNEP FI during the United Nations Conference on Sustainable Development. Tokio Marine & Nichido was elected board member of the PSI Initiative.

As well as being activily engaged in the climate change debate Tokio Marine Group has responded to the Sustainable Development Goals. It is providing a variety of products and services and promotes CSR initiatives that are related to SDGs.

Analyst – Tristan Matthews

Tristan joined Ruffer in 2009 after graduating with an Economics degree from the University of Cambridge. He worked with a portfolio manager for three years in Ruffer's fund management department. Following this, Tristan worked as an equity analyst in the firm's Hong Kong office. Since early 2013 he has been an equity analyst focusing on Japan. He is a CFA charterholder.

Ceres Power (UK)

Company overview

Ceres Power is a small developer of next generation fuel cell technology and is listed on the London Alternative Investment Market (AIM). Its products generate power from traditional fuels at high efficiency but importantly with lower greenhouse gas (ghg) emissions such as CO2 and nitrogen oxide emissions as well as sulphur oxides. The materials used in the fuel cells and the manufacturing process are standardised around steel and secondly the product uses existing gas infrastructure, either domestic or commercial.

ESG

The Paris Agreement's central aim is to strengthen the global response to the threat of climate change by keeping a global temperature rise this century well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. Additionally, the agreement aims to strengthen the ability of countries to deal with the impact of climate change. To reach these ambitious goals, appropriate financial flows, a new technology framework and an enhanced capacity building framework will be put in place, thus supporting action by developing countries and the most vulnerable countries, in line with their own national objectives.

Fuel cell technology is widely recognised as the cleanest and most efficient way to generate power from natural gas and is well placed to capitalise on this momentum. Natural gas reserves and liquified natural gas (LNG) are already a big part of the energy mix, and by using the existing gas infrastructure in the most efficient way to generate power at point-of-use, a fuel cell system can cut both consumption and cost, while improving reliability, resilience and decreasing emissions. The resulting consumer and business proposition is that of more affordable, dependable and cleaner power. The commercial focus is coming from the major users of gas infrastructure including Japan, South Korea and the US.

The company's scalable steel cell technology has demonstrated the overall efficiency of fossil fuel use can be improved from around 35-40% to 55%. The agreement with Cummins targets 60% electrical efficiency for multiple distributed power applications up to 100KW. At this level of efficiency, adoption by heavy users of conventional power such as data centres could be economic and environmentally desirable. In theory this would involve data centres replacing their existing conventional power lines with fuel cells and using the connected power infrastructure only as back up. The company claims that this could cut data centres' overall costs by 20% and reduce their carbon footprint by up to 49%. Ceres plays directly to these trends and is a small company operating in an enormous market.

Analyst – Des Brennan

Des joined Ruffer in 2011, initially working on the Ruffer UK Mid and Small Cap Fund until 2016. He began his investment career in 1988 as a research analyst before joining Clerical Medical Investment Group in 1995 as a fund manager. From 2006 he worked for Thornhill Investment Management, managing client portfolios. He is an ASIP member of the CFA.

Kroton (Brazil)

Company overview

Kroton Educacional was born 50 years ago in Belo Horizonte, with the creation of the university entrance preparatory course Pitágoras. The company is the largest listed education company in Brazil, with a market capitalization of close to US$7 billion. It operates primarily in the undergraduate segment, but does also offer primary and secondary education. In 2015 Kroton had over one million enrolled students, and reported revenues of R$5 billion. The company has over 100 campuses across Brazil, and over 900 distance learning centres.

Improving the quality of education, and the access to it, is a priority for the Brazilian government, and is a cornerstone of efforts to lift millions out of poverty and grow the country's middle class. Brazil is certainly a laggard compared to peers, as gross enrolment rates in post-secondary education are only 30%, compared to 60% in Chile and 95% in the US. The benefits for students in Brazil are certainly tangible, with graduates able to command a salary more than twice as high as those without degrees. Education spending accounts for 6% of the government's budget, and the medium term aim is to take this towards 10%, although the recent severe recession in Brazil has hampered this effort, causing the student financing programme to be reduced.

Kroton has also been consolidating the industry, with the acquisition of Anhanguera in 2014 being its largest deal so far. This strategy has not only allowed the group to achieve economies of scale and to increase margins, but also to improve the quality of its courses and its student results over time. The rise of distance learning is another key pillar in Kroton's strategy. Distance learning, whereby much of the degree course is completed online, opens up post-secondary education opportunities to more Brazilian students, especially those from poorer backgrounds or who live in remote areas.

ESG

The company is active in this area with many projects to give back to the community. For example, in 1999 Kroton created the Pitagoras Foundation, a non-profit institution which provides education projects in both public and private school networks. In 2013 Kroton mobilized many of its units to participate in Responsible Education Week, providing free education services to local residents. Kroton does not have any activities which cause material environmental damage, and indeed its promotion of online and distance learning helps cut paper usage and student travel.

Kroton's 2015 sustainability report is based on Global Reporting Initiative (GRI) methodology. To define its most relevant topics, Kroton undertook a formal process to identify its positive and negative economic, social and environmental impacts. With support from an external consultancy, an analysis was conducted consisting of strategic documents and topics suggested by strategic stakeholders in previous engagement processes. It formally reports on energy, water and waste reduction targets.

In terms of its energy reduction targets, it describes some interesting pilot projects such as the exchange of fluorescent lamps with LED bulbs, which on average has resulted in a 60% reduction of energy consumption. Thirty-one Kroton units participated in this project which resulted in exchanging 63,000 lamps. By the end of 2017 the company want to see its energy consumption reduced by 10%. Similarly the company has implemented water reduction systems and reports a 20% reduction of water use in its 2015 Sustainability Report.[17]

17 www.mzweb.com.br/kroton2010/web/arquivos/Relatorio_de_sustentabilidade_2015.pdf

Kroton believes in social inclusion by means of quality education. To ensure everyone has access to formal education, the company has expanded its activities to diverse Brazilian states.

The NUEEI (Portuguese acronym for inclusive special education center) is responsible for inclusion and for ensuring that students with special needs are able to successfully enrol in and complete higher education courses. This involves planning, monitoring and providing special services that can include advice, the adaptation of materials and the ongoing training of the instructors and teachers responsible for these students' learning.

The company has a corporate social responsibility board committee which is chaired by one of its Non-Executive Directors.

Analyst – Guy Thornewill

Guy joined Ruffer in 2009, initially working on the CF Ruffer European Fund until 2012. He began his investment career at Threadneedle Investments in 1996 on the US equity team. After four years in Paris at Jefferies International as a pan–European stock–picking analyst on the sell side, he returned to London in 2007 to work for AllianceBernstein, researching European mid–cap companies. He is a CFA charterholder.

Wacker Chemie (Germany)

Company overview

Wacker Chemie is a global chemical company with 25 production sites, 17,000 employees and annual sales of €5.4 billion. Most of Wacker's products are based on inorganic materials with silicon-based products accounting for 80% of sales. Wacker's customers span virtually every major sector ranging from consumer goods, food, pharmaceuticals, textiles, solar, electrical/electronics and base-chemical industries to medical technology, biotech and mechanical engineering. Wacker is one of the world's leading suppliers of polycrystalline-silicon for the fast growing solar energy industry.

ESG

We estimate Wacker derives up to 25% of its turnover from products or services related to climate change solutions. The company is involved in renewable energy and alternative energy. Hyperpure polycrystalline silicon from Wacker Polysilicon is used to manufacture wafers for the solar industry. Wacker Silicones produces coatings for wind turbine rotor blades. With respect to energy management and energy efficiency, Wacker Polymers manufactures products related to construction and insulation (ceramic tile adhesives, exterior insulation and finish systems, self-levelling compounds). Wacker Silicones also supplies materials for window insulation, optical silicones for LED applications and silicone resin paints used on the outside of buildings to improve energy efficiency. The company is currently working on the application of specialty silicones for fuel cells that are seen as a solution for sustainable transport.

In terms of its life cycle assessments, the company looks at the environmental impact caused by a specific product family throughout its life cycle. It describes it as a 'cradle-to-gate' assessment extending from manufacturing to the factory gate. The analysis allows Wacker to assess the sustainability of its products and production processes, and improve them accordingly. Wacker states that 'reducing solid, liquid and gaseous waste – in particular greenhouse gases – is a perpetual goal' and goes on to say 'we are working on determining the whole group's corporate carbon footprint. It is an essential tool for advancing our efforts in the field of climate protection. We also intend to prepare carbon footprints for our products.'[18]

Wacker uses the global water tool (GWT) developed by the World Business Council for Sustainable Development to analyse the annual relative water stress index of the countries in which it operates. The company reports that its most important production sites are located in regions with a low relative water stress index. These regions account for more than 97% of its annual water consumption and over 90% of its production volume. Production sites in countries for which no GWT-based water stress index information is available account for less than 0.5% of water consumption.

Finally, Wacker reports that the highest level of direct responsibility is with the executive board member who is responsible for the Group's corporate sustainability approach including environment, health, and safety. Below the executive board, there are several committees that ensure corporate strategies are implemented group wide. The company states that environmental topics include among others climate change related aspects.

Analyst – Simon Mountain

Simon joined Ruffer in 2013. He graduated from the University of Cambridge with a Master's degree in Manufacturing Engineering. He was previously at Bain & Company, having gained ten years' experience as a strategy consultant. He started his career in PwC Transaction Services advising on European private equity deals. Simon joined the CF Ruffer European Fund team in 2013, becoming co-manager in 2016.

18 www.wacker.com/cms/en/investor-relations/profile/engagement/engagement.jsp

Glossary

AGM	Annual General Meeting
AIM	Alternative Investment Market
Aiming for A	A collaborative shareholder engagement initiative on climate change; the 'A' in Aiming for A refers to the best A-E CDP performance band. Within the performance banding methodology considerable weight is given to operational emission management alongside strategic and governance issues like those covered in the resolutions.
CDP	Formerly the Carbon Disclosure Project, now CDP
COP	Conference of the Parties
CSR	Corporate Social Responsibility
Engagement	A long-term process of dialogue with companies which seeks to influence company behaviour in relation to their environmental, social, and governance practices.
ESG	Environmental, social and governance
Exclusion	An approach that excludes given sectors or companies from a fund if involved in certain activities based on specific criteria, such as arms manufacture, publication of pornography, tobacco, animal testing, etc.
FRC	Financial Reporting Council
GPIF	Government Pension Investment Fund (Japan)
HFC	Hydrofluorocarbons
Integration	The explicit inclusion by investment managers of ESG risks and opportunities into traditional financial analysis. Corporate governance risk should be limited here to the interface between governance and social and environmental issues.
JFSA	Japanese Financial Services Agency
KPI	Key Performance Indicator
LTIP	Long Term Incentive Plan
METI	Ministry of Economy, Trade and Industry (Japan)
MDG	Millennium Development Goals

NDC	Nationally Determined Contributions. The NDCs spell out the actions countries intend to take to address climate change, both in terms of adaptation and mitigation. Originally submitted as Intended Nationally Determined Contributions before the COP21, or INDCs, these become binding Nationally Determined Contributions when a country ratified the Paris Agreement.
Positive selection	The selection, within a given investment universe, of stocks of companies that perform best against a defined set of ESG criteria. This may include best-in-class or SRI theme funds for instance.
Principles for Responsible Investment (PRI)	There is a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Investors fulfilling their fiduciary (or equivalent) duty therefore need to give appropriate consideration to these issues. The Principles for Responsible Investment provide a framework to do so. The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.
Responsible investment	The integration of environmental, social and governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance. Responsible investment can be practiced across all asset classes.
Sustainable Development Goals (SDG)	A set of seventeen aspirational 'global goals' with 169 targets between them. Spearheaded by the United Nations, through a deliberative process involving its 194 member states, as well as global civil society, the goals are contained in paragraph 54 United Nations Resolution A/RES/70/1 of 25 September 2015.
SRI	A generic term covering responsible investments, sustainable investments, ethical investments and any other investment process that combines investors' financial objectives with their concerns about environmental, social and governance (ESG) issues.
UNEP FI	United Nations Environment Programme Finance Initiative

UN PRI

UN Principles for Responsible Investment

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

1. We will incorporate ESG issues into investment analysis and decision making.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

Ruffer LLP

Who we are

Ruffer is a privately-owned investment management firm. As at 31 March 2017, we manage over £21.4 billion for pension funds, charities, companies and private clients, and employ over 230 people, with offices in London, Edinburgh and Hong Kong. We have a single investment strategy that has followed the same tried and tested investment approach since the firm started in 1994.

Our investment objectives

Our goal is to deliver consistent positive returns, regardless of how the financial markets perform. We define this through two investment aims

— not to lose money in any rolling twelve-month period
— to grow funds at a higher rate than would be achieved by depositing them in cash

Since Ruffer started, this approach has produced returns ahead of equity markets, but with much lower volatility and risk. Over shorter time periods, if equity markets are rising, our returns are likely to be lower than those of equity indices, since we will always hold protective assets as well. Although these are our aims there is always the chance that we may lose money because of the nature of the investments involved and it is possible that individual constituents of the portfolio lose all their value.

How we invest

Ruffer portfolios are predominantly invested in conventional assets, such as equities, bonds, collective investment schemes, commodities and currencies; we also will make use of derivatives. At the heart of our investment approach is an asset allocation which always maintains a balance of growth and protective investments. Protective assets, such as bonds, should perform well in a market downturn and defend the portfolio value; those in growth, principally equities, should deliver good returns in favourable market conditions. This blend of offsetting investments reflects the prevailing risks and opportunities that we see in financial markets, rather than any pre-determined allocation. We operate without the constraints of benchmarks that institutional investors have historically been tied to. The asset allocation is fulfilled through specific stock selections. We invest only in companies that reflect the themes we seek to benefit from in portfolios. We never simply invest in a stock market index.

Our investment team

Ruffer's investment team and strategy are led by Jonathan Ruffer (Chairman) and Henry Maxey (Chief Investment Officer). They are supported by a research team of over 30 analysts, focusing on economic and market trends, company analysis and developing investment ideas. These are used by portfolio managers on the fund management team to construct portfolios in line with the investment strategy. The average experience of Ruffer's investment team is over 15 years.

Contact us

Stewardship

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Proxy voting and engagement issues

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Further information

The following documents are available on our website at www.ruffer.co.uk

Japan Stewardship Code
ESG policy
2015 ESG report

Franziska Jahn-Madell
Manager – Responsible Investment

Joined Ruffer in 2014 after working for ten years at EIRIS, a research provider for environmental, social and governance performance, in several positions. Her last role as a Principal Research Analyst at EIRIS mainly focused on Corporate Governance issues and criteria development. From 1999-2003 she worked at the Moral Theology department at Frankfurt University for the Business Ethics Chair. In 2003 she graduated from Frankfurt University with an MA (distinction) in Theology and an MA (distinction) in Literature.

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