Responsible Investment Report

Q4 2020

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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 have always needed to analyse environmental, social and governance (ESG) issues. They represent both sources of value and investment risks. Fully incorporating these considerations into our investment approach forms an essential part of our responsibility to our clients.

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

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

HOW WE DO IT

INTEGRATION

ESG risks and opportunities are considered throughout our investment process

ENGAGEMENT

Directly engaging with companies is a key part of our investment process

VOTING

Equity investing comes with rights and responsibilities

Ruffer are 'climate neutral'. We are signatories and supporters of

PRI Principles for Responsible Investment · IIGCC Institutional Investors Group on Climate Change · Climate Action 100+ Global Investors Driving Business Transition · Transition Pathway Initiative · CDP Disclosure Insight Action

Overview of the quarter

IN A QUARTER THAT, WITHOUT THE COVID-19 PANDEMIC would have seen the United Nations Climate Change Conference (COP26) in Glasgow, significant progress was still achieved in addressing the issue of climate change. In October, Japan's new Prime Minister, Yoshihide Suga, announced the country would aim to reduce its greenhouse gas emissions to net-zero by 2050. While in the UK, the Prime Minister announced in November an ambitious ten point plan to achieve a 'green industrial revolution' to meet the net-zero by 2050 target which was set in 2019. It includes ending the sale of new diesel and petrol cars by 2030 and developing jobs in areas such as offshore wind and the renovation of homes and public buildings to improve energy efficiency. The plan reflects the growing view that the stimulus required to create growth in the aftermath of the pandemic should be targeted to ensure that the economy is both more sustainable and more resilient in the decades to come. In December, Mr Johnson pledged to increase the target to reduce greenhouse gas emissions by 68% below 1990 levels by 2030, from a previous target of 57%.[1] This pledge came ahead of the Climate Action Summit, which the UK co-hosted in mid-December, on the fifth anniversary of the Paris Agreement.

The US looks set to re-join the Paris Agreement following the result of the Presidential election in November. President-elect Joe Biden has appointed John Kerry as the Special Presidential Envoy for Climate. Mr Kerry, as Secretary of State in 2015, played a key role in reaching the Paris Agreement which he signed on behalf of the US. His appointment is seen as a signal the Biden administration is serious about taking a leading position in addressing climate change, especially as Mr Kerry's role will include serving on the National Security Council. Importantly, he has already commented that while it is necessary for the US to re-join the Paris Agreement, it is by no means sufficient and, therefore, it is believed he will drive further changes in policy. This is expected to contribute to the momentum building ahead of the delayed climate change conference, COP26, now planned for November 2021.

1 gov.uk 3 December 2020

Ruffer participated in a roundtable at the 'Net-zero Live' summit on 'The 'S' in ESG: How can we ensure a fair, just transition to net-zero'. The summit was held to build partnerships to accelerate the transition and drive a green recovery, with the key message being the urgency of the action required to address climate change. The roundtable focused on the rising importance of social sustainability issues, particularly in response to the covid-19 pandemic, and how companies can manage these. At Ruffer, we have discussed with a number of companies how they have managed their relationships with stakeholders during the pandemic, and this engagement theme will continue in 2021.

The quarter also saw investors begin a process of engagement with mining companies on the management of cultural heritage sites and First Nations/ Indigenous community relations. Following the destruction of a number of caves of cultural and archaeological significance in the Juukan Gorge, in Australia in May 2020, Ruffer was part of a group of investors that wrote to mining companies to stress our concern over this event and to put pressure on companies to ensure similar ones do not happen. The engagement will consider standards of best practice and how these have been applied and monitored across the sector. Looking ahead to 2021, at Ruffer we will continue to discuss this important issue with companies.

Stewardship activities in brief

COMPANY	SUMMARY
ARCELORMITTAL	A Climate Action 100+ call with two board members to continue the conversation on the setting of greenhouse gas emissions reduction targets, the possibility of linking targets to executive remuneration, and the format of the 2021 AGM.
CENTENE	A discussion on the independence of members of the board, succession planning, and our support for the company disclosing more information on their political contributions.
CREST NICHOLSON	A follow up discussion on the company's new sustainability strategy, new board structure and its effectiveness, and how ESG considerations are integrated into executive remuneration.
FUJITEC	A discussion on the company's cross-shareholdings, the independence of board members, and our support for a three-committee board structure.
GENERAL MOTORS	A discussion on emissions standards, board structure and lobbying, as well as the company's electric vehicle transition plan.
GOLD FIELDS	A discussion on the current processes in place to safeguard cultural heritage sites, the company's endorsement of the Global Industry Standard for Tailings Management, and how employee relations have been maintained through the covid-19 pandemic.
HAMAMATSU PHOTONICS	A discussion on director independence, cross-shareholdings and the structure of the board.
HENNES & MAURITZ	A discussion on director independence and our desire to be able to communicate our concerns on board composition directly to the board.

LAND SECURITIES	A discussion on the company's sustainability strategy and the scope of its recently increased emissions reduction targets.
LIVENT	An update meeting on the company's progress on its sustainability policy formation, targets and commitments, data disclosure and board accountability for the company's sustainability strategy.
NEWCREST	A discussion on the management of tailings dams. We wanted to understand the changes put in place after the partial slump of a wall of a tailings dam in 2018 and how the company plans to implement the Global Industry Standard for Tailings Management which was published in August 2020.
RUBIS	A discussion on the alignment of executive remuneration with shareholder interests and the company's sustainability strategy, including its plans to publish emissions targets with their next annual results.
TESCO	A follow up discussion on the changes proposed to the company's remuneration policy.
VOLKSWAGEN	A broad initial conversation on the company's low carbon transition plans, including the role of electric vehicles in their strategy, company culture and governance.
YARA	A discussion on the company's strategy, focusing on capital allocation and the communication of environmental initiatives.

Further detail can be found in our Stewardship Activities report, available at ruffer.co.uk/2020-Q4-stewardship

ARCELORMITTAL is one of the world's leading steel and mining companies. It is headquartered in Luxembourg and is Europe's largest steel producer

Issues: Environmental, social

AN INSIGHT INTO AN ENGAGEMENT ON CLIMATE CHANGE WITH ARCELORMITTAL

Over the past few years, we have intensified our engagements with companies on the issue of climate change. This reflects the growing concern about climate change in many countries around the world. But it also, importantly, reflects the increasing acknowledgement of the risks, both physical and transitional, that climate change poses for financial markets. Consequently, our engagements have focused not just on oil and gas companies, but also on companies in industries from mining to apparel.

One of the most carbon intensive companies in our portfolios is ArcelorMittal, the largest steel producer in Europe. The current production process for steel is hugely carbon intensive as it uses significant amounts of metallurgical coal to reduce the iron ore into iron and subsequently into steel.

This process has been made much more efficient over the last few decades but expected future efficiency gains are not going to be sufficient to meet the goals of the Paris Agreement. Much of the infrastructure that will be needed to transition to a low-carbon economy, such as wind turbines, requires a lot of steel. Consequently, it is arguable that we will need more steel, not less, given its properties enable it to be reused and recycled (unlike many other materials, such as cement). The development of new processes that drastically reduce the carbon intensity of steel production will therefore benefit both the environment and the company.

We have been intensively engaging with ArcelorMittal over the last 18 months through Climate Action 100+, where we are one of the co-lead investors. We attended the company's Annual General Meeting (AGM) in Luxembourg in May 2019, where we asked the company to set ambitious targets to reduce its greenhouse gas emissions and to review its lobbying activities. We felt it was

Climate Action 100+

A five year initiative, launched in December 2017, to engage with the world's largest corporate greenhouse gas emitters. The initiative, which is led by investors, has three high level goals on climate-related matters: to improve governance, reduce emissions and increase disclosure. It is engaging with 161 companies. By the end of 2019, the initiative was supported by more than 500 investors representing $47 trillion in assets under management important to attend the AGM to make a statement to the whole board, including Mr Mittal as CEO and Chair of the Board, to introduce the Climate Action 100+ initiative and explain what it is trying to achieve. We had a private meeting with Mr Mittal after the AGM, which was helpful in allowing us to provide context as to what we are asking the company to do and to build a common understanding.

We have had numerous meetings with ArcelorMittal since then and we are encouraged by the commitments that the company has made, most significantly in October 2020 to be net-zero across its global operations by 2050. This is a hugely important step and achievement of this target will require the development of new production processes using either the 'smart carbon' based route or via the use of hydrogen, instead of coal, to reduce iron-ore. While most of these technologies are still in the pilot phase, the announcement that the company has begun to produce 'green steel' in 2020 at its European operations demonstrates the feasibility of these new processes. The net-zero commitment followed pledges in December 2019 for its European operations to reduce its emissions by 30% by 2030 and to be net-zero by 2050. Our engagement is now focused on encouraging the company to set an ambitious 2030 emissions reduction target across its global operations and to publish a robust transition plan setting out how it will achieve these targets. Both these topics were discussed in detail at a meeting with Aditya Mittal, CFO and board member, and Bruno Lafont, Lead Independent Director, in November 2020 and we look forward to continuing our productive discussions in 2021.

Net-zero

When anthropogenic emissions of greenhouse gases into the atmosphere are balanced by equivalent removals from the atmosphere over a specified timeframe. Also referred to as climate neutral.

ENGAGEMENT WITH UK TREASURY ON THE RPI REFORM

In addition to our engagement activities with companies, we also respond to policy consultations and engage with policy makers on a range of topics. Over the past eight years, we have participated in the debate over the RPI transition due to the potential impact on our holdings of index-linked bonds.

WHAT IS INFLATION? This was the question the Consumer Prices Advisory Committee (CPAC) began asking itself and the UK Treasury in 2012. Due to different methodologies, a gap has always existed between two prominent measures of UK inflation: the Retail Price Index (RPI) and the Consumer Price Index (CPI), with RPI consistently increasing at a faster rate. This has financial consequences for the UK government, given it has historically used RPI to index prices and incomes from state benefits and pensions to index-linked gilts. Following an error in how clothing price inflation was calculated in 2010, a more significant 'wedge' opened between RPI and CPI, often referred to as the 'formula effect'. This led to CPAC attempting 'to identify, understand and eliminate unjustified causes of the gap between CPI and RPI'. Broadly speaking they were looking to align RPI more closely with CPI.

At Ruffer, we have never professed to be statisticians. However, given that a large proportion of the inflation-linked bonds we own for clients are linked to UK RPI, this could have had a significant impact on the portfolio's holding in index-linked government bonds. Following considerable debate, in which we have participated consistently over the last eight years, the UK government concluded in November 2020 that a switch from RPI to CPIH (CPI including owner occupiers' housing costs) would take place for its inflation-linked government bonds. Although a transition looked inevitable, it has however, been delayed until 2030. This delay was well received by bond investors and meant that the impact of this change on the holdings in portfolios has been minimal.

Whilst the mechanism for how inflation was calculated bears no impact into our long-term rationale for holding these bonds, it was important that we protected our clients' interests, and ensured that these investments were not undermined. The engagement of Ruffer, amongst others, has ensured this change takes place in the least disruptive way, and has enabled us to protect our clients' assets in the process.

HISTORY OF ENGAGEMENT

OCTOBER 2012
Ruffer attended the public consultation and responded to the Office of National Statistics (ONS) with options for improving the Retail Price Index.

JANUARY 2013
The ONS decided to make no changes to RPI but downgraded it from being a national statistic. The longest dated bonds in Ruffer portfolios rose by 10% on the day of the announcement.

JULY 2018
The ONS downgrade was at odds with the broader statistical community. Following this there was a call for evidence at the House of Lords. Ruffer was one of approximately 30 responders to this study.

JULY 2020
Ruffer participated in the consultation addressing reform to the Retail Prices Methodology. The basis of our response was to highlight the threat to the broader inflation-linked market in the UK, similar to the disruption caused to the US market following the Boskin reforms (which had the effect of lowering CPI). We strongly advocated that if changes were to be made that this should be done post 2030.

NOVEMBER 2020
The Treasury formally announced that RPI will transition towards CPIH, but that these changes will not come into effect until 2030. The longest dated bonds rose by 4-5% immediately on the announcement.

The race to net-zero

ALEXIA PALACIOS

Analyst – Responsible Investment

THE UK MADE HEADLINES IN THE SUMMER OF 2019 WHEN IT BECAME THE FIRST MAJOR ECONOMY TO PASS A LAW REQUIRING GREENHOUSE GAS EMISSIONS TO BE REDUCED TO NET-ZERO BY 2050.[1]
Since then, Denmark, Sweden, France and New Zealand have all adopted similar laws. Companies have followed suit, from Unilever to AstraZeneca.

So what has led to this rush of commitments by both companies and countries and how meaningful are these pledges? To answer these questions, we need to consider the Paris Agreement.

DEGREES OF DIFFERENCE

Since the Paris Agreement was reached, the most commonly reported outcome is the goal to limit the increase in global temperatures to well below 2ºC above pre-industrial levels. However, the more ambitious goal, to limit the increase to 1.5ºC, has received less attention. In October 2018, the Intergovernmental Panel on Climate Change (IPCC) released a report which starkly laid out the likely consequences of global warming of 1.5ºC, and the additional damage that warming of 2ºC could cause.

It is the aim to limit the increase to 1.5ºC that has driven the rush of commitments to be net-zero by 2050.

The report stated that global temperatures have, on average, already risen 1ºC above pre-industrial levels and are currently increasing at 0.2ºC per decade. Therefore, it is likely that an increase of 1.5ºC above pre-industrial levels will be reached between 2030 and 2052.[2] This report catalysed efforts to limit the increase in global temperatures to 1.5ºC in the long-term: an ambition which models suggest would require emissions of greenhouse gases to be reduced to net-zero around 2050.[3]

1 gov.uk, 27 June 2019
2 IPCC 2018 Global Warming of 1.5ºC Report, Summary for Policy Makers
3 Ibid

Net-zero

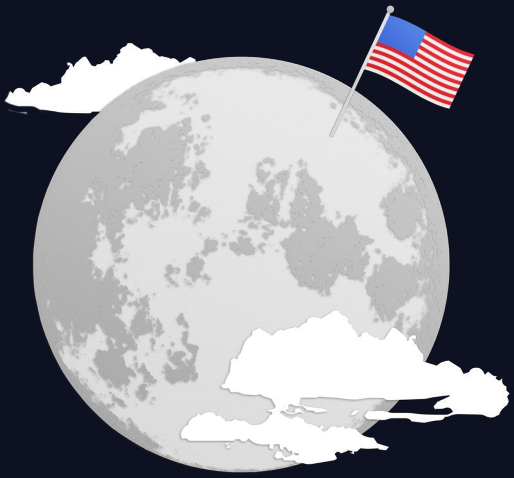
When anthropogenic emissions of greenhouse gases into the atmosphere are balanced by equivalent removals from the atmosphere over a specified timeframe.

Paris Agreement

A global agreement reached in December 2015 at the United Nations Climate Change Conference (COP21) in Paris and ratified in October 2016 with the aim of limiting the global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

WORDS OF COMMITMENT

Although current governments and CEOs making a commitment which they will not be in place to be judged against may seem to some a meaningless gesture, the scale of the transformation and the time required to achieve these targets should not be underestimated. As the capital expenditure decisions taken today will have a significant effect on whether 2050 targets will be achieved, action needs to start now.



Critics note these ambitions are not accompanied by a plan of how they will be achieved in practice. However, this isn't the first time politicians or corporate leaders have committed to goals many thought unachievable. Take, for example, President Kennedy in 1961, when he committed the United States to putting a man on the moon by the end of the decade. They may not have all the answers yet, but by making these commitments, companies and governments seek to encourage the brightest minds, backed by significant investment, to find the best path forward.

THE TRANSITION TO NET-ZERO

For investors, like Ruffer, it is of utmost importance that the transition begins now. The longer this is delayed, the greater the chance of it occurring in a rushed and disorderly way, which would create additional uncertainty for markets. Former Governor of the Bank of England, Mark Carney emphasised this potential impact on financial stability: "We should make no mistake about it: achieving net zero requires a whole economy transition. Every company, every bank, every insurer, every investor will have to adjust business models. But doing so will turn an existential risk… into the greatest commercial opportunity of our time."

The transition creates both risks and opportunities for the companies in which we invest, and these considerations inform both our investment analysis and our engagement discussions. Looking at companies currently held in Ruffer portfolios, both BP and Royal Dutch Shell[4] have announced plans to become net-zero energy companies by 2050, marking significant changes in their business models and strategic outlooks. Additionally, in September 2020, ArcelorMittal announced a target to become net-zero across

4 Press releases: BP, 12 February 2020, Shell, 6 April 2020

its global operations by 2050.[5] Ruffer has been co-leading the Climate Action 100+ working group engaging with ArcelorMittal, more details of which can be found in the stewardship section of this report.

A COORDINATED CHANGE

Since the Business Ambition for 1.5°C pledge was launched in June 2019, 319 companies have made these commitments, in industries as diverse as mining and telecommunications.[6] This is of fundamental importance, as these targets include a company's emissions across its value chains. Therefore, to achieve these greenhouse gas emissions reductions in the most cost-efficient way, new partnerships will need to be forged, not only within, but between, industries. Partnerships such as the Energy Transition Commission and the Mission Possible Platform, convened by the World Economic Forum, will be vital to establish better co-ordination between sectors as we transition from linear to circular economic models.

Policy makers and business leaders are now looking ahead to the delayed COP26 which will be held in Glasgow in November 2021. Countries will be required to submit their updated Nationally Determined Contributions for the first time since the Paris Agreement was reached in 2015. Following the result of the presidential election in November, the US looks set to re-join the Paris Agreement and it is hoped that COP26 will re-invigorate the global collaboration needed to achieve meaningful change. It is not only carbon-intensive sectors that will be directly affected by the outcomes of COP26, all sectors and particularly the financial sector will be affected by the agreements reached. Christine Lagarde, President of the European Central Bank, has pledged to make climate change 'a mission-critical priority', in the launch of the COP26 Private Finance Agenda.[7]

5 ArcelorMittal press release, 30 September 2020
6 unglobalcompact.org, Business Ambition for 1.5°C
7 Financial Times, 27 November 2019

Circular economic model

Where resources are continually used and waste is eliminated, in contrast to a linear economic model where resources are used and then disposed of.

Nationally Determined Contribution

A country's commitment to reduce its greenhouse gas emissions and details of how it intends to adapt to climate change which are submitted every five years.

CONTINUING ENGAGEMENT

We are encouraged by the steps already taken and expect momentum to grow ahead of COP26. As responsible stewards of our clients' capital, we will continue to push companies to make further progress and provide additional information on how their climate targets will be met in the months and years ahead. The steps taken over the past year demonstrate how companies, particularly in carbon intensive sectors, are recognising the need to commit to addressing climate change to maintain their social license to operate. Due to the significant implications for companies, industries and sectors, we will continue to closely monitor developments and incorporate these into our engagement plans and investment analysis at both the macroeconomic and company-specific levels.

Social license to operate

Exists when a company has the approval of its employees, the local community and other stakeholders to continue to operate in the region

About Ruffer

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

To invest well, we need to take on risk. With risk comes great responsibility. Our preoccupation is with not losing money, rather than charging headlong for growth. It's by putting safety first that we have made good money for our clients. Through boom and bust. For over 25 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value substantially.

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

Our decision to invest in companies is based on both fundamental and ESG analysis. As part of the investment process, our responsible investment team partner closely with the analysts in our research team to identify and evaluate the impacts a company's operations could have on the environment and society. Likewise, the risks associated with weak corporate governance practices are evaluated. 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 it is also an effective tool to achieve meaningful change.

OUR RESPONSIBLE INVESTMENT FRAMEWORK