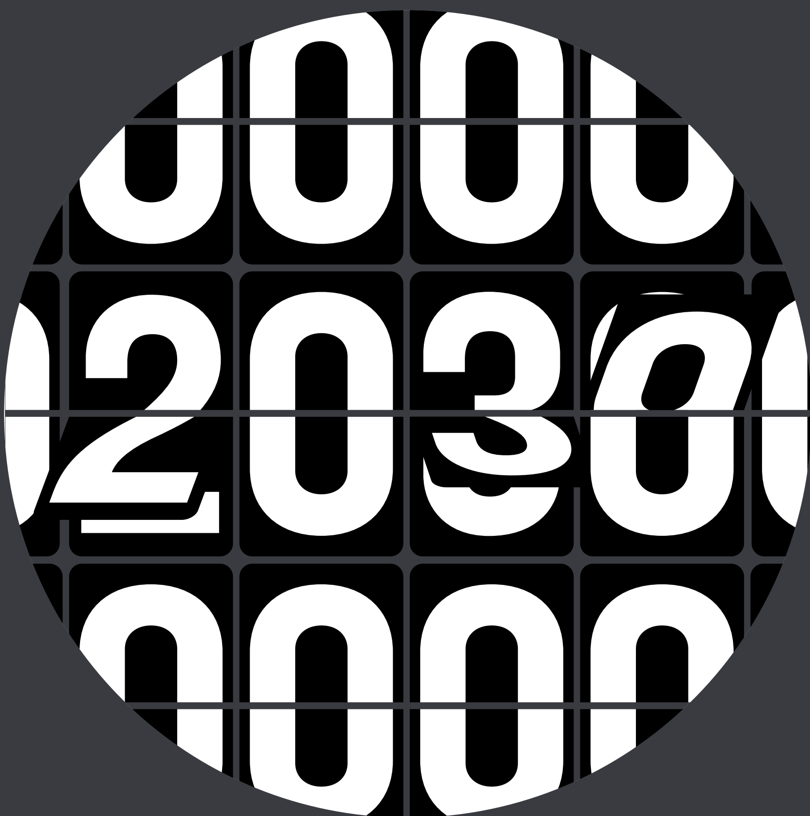
RUFFER

Responsible Investment Report



Q2 2021

Contents

Responsible investment at Ruffer

AT RUFFER, WE ARE COMMITTED TO BEING GOOD STEWARDS OF OUR CLIENTS' ASSETS.

To do that, and to generate good investment performance, we 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

We take this seriously

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

Overview of the quarter

'BUILD BACK BETTER'. THAT HAS BECOME THE SLOGAN OF CHOICE FOR POLICYMAKERS AS THEY DRAW UP THE BLUEPRINTS FOR THE POST-PANDEMIC WORLD.

But – as anyone who has ever undertaken so much as a kitchen extension well knows – building projects seldom come in on time, and almost never within budget. In this quarter's report, we take a closer look at these plans and focus on one project – climate change – on which companies and governments cannot afford delays.

In April, US President Biden hosted a two day Climate Leaders Summit, at which several countries announced new pledges to cut emissions further than previously promised. The president sought to re-establish America's environmental credibility by pledging to cut emissions by 50% (from a 2005 base) after re-joining the Paris Agreement. Investment Manager, Rory Goodman examines this commitment, and its implications, in this quarter's report.

The International Energy Agency (IEA) has set out a roadmap for the global energy sector with advice for reducing emissions to net-zero by 2050. This report is particularly important, as the IEA has historically been supportive of the need for fossil fuels in the coming decades and many governments and companies in the energy sector base their own investment plans on IEA projections. The IEA's 2021 report proposes a drastic overhaul of energy supply – new installations of solar and wind turbines would have to quadruple on a global basis by 2030, equivalent to building the world's largest solar farm every day until 2030. The report also suggested no new oil and gas exploration projects should take place from the end of this year and no fossil fuel boilers should be sold from 2025.

In recent months, several companies in which Ruffer invests have announced new climate change initiatives. General Motors, for example, plans to reduce operational energy intensity and reduce waste. JPMorgan announced carbon reduction targets for the corporate clients it finances, at the same time as aiming to lend, invest and provide other financial services for up to $2.5 trillion for companies and projects tackling climate change and social inequality over the next decade. Mitsubishi UFJ, Japan's biggest lender, announced plans to be carbon neutral in its own operations by 2030 and align its lending business with the Paris Agreement targets.

The second quarter of the year is also the most prolific for annual general meetings (AGM). The most significant development for Ruffer portfolios came from ExxonMobil's AGM. We voted against management guidance by supporting the nominations of three independent directors proposed by activist hedge fund, Engine No.1, as well as several shareholder resolutions. Sufficient shareholder support resulted in three likely appointments to the board: an unprecedented and profound wake-up call for ExxonMobil and a message to the entire industry to take investor concerns on climate change seriously. More on this under *Engagement in focus* on page 10.

Our active stewardship and engagement activity extends beyond corporations and in June, we joined a new collective initiative – the Global Investor Statement to Governments on the Climate Crisis. The group calls on governments to address gaps in their climate ambition and policy action to better meet Paris Agreement objectives and to adequately incentivise private sector investment.

Stewardship activities in brief

COMPANY	SUMMARY
ARCELORMITTAL	A Climate Action 100+ meeting to continue the conversation on the company's greenhouse gas emissions reduction targets, its priorities on the Net-Zero Company Benchmark and its climate change progress since Aditya Mittal succeeded Lakshmi Mittal as the new CEO in February 2021.
BAE SYSTEMS	We engaged with the company to discuss its progress in relation to its greenhouse gas emissions reduction ambitions and the long-term effects of the 2010 bribery scandal on its stakeholders.
BRITISH AMERICAN TOBACCO	A meeting to understand the effectiveness of the company's efforts to eradicate child labour through its supply chain, and an update on its greenhouse gas emissions reduction targets.
CARREFOUR	A meeting requested by the company ahead of the annual general meeting (AGM). Key issues included remuneration, executive independence and deforestation resulting from the company's supply chain. We voted against management on executive remuneration and the Chair of the Remuneration Committee, as well as on the reappointment of a non-executive director.
EXXONMOBIL	An ongoing engagement with the company ahead of the AGM, with the discussion focussing on climate change and board structure. We voted for the appointment of three independent directors proposed by activist investor Engine No. 1.
FUJI ELECTRIC	We engaged with the company ahead of the AGM to reiterate our views on board independence and, as a result, our intention to vote against the re-election of one director. We also communicated our support for recent improvements the company has made to its corporate governance structure.

RUBIS	A series of engagements to ensure the company understands, and is preparing for, the energy transition, the need to reduce its environmental impact and improve its corporate social responsibility approach.
SMC	An engagement on the company's historically poor governance practices, recent improvements since the appointment of the new CEO in April 2020, and our concerns regarding board independence.
SONAE	An ongoing discussion on simplifying the business and better communicating hidden value, with particular focus on cash flow generation and the sustainability of cash flows.
TOKEN	An introductory meeting covering the company's proposed capital allocation, its commitment to diverse and independent external board members and its remuneration policy.
WH SMITH	A follow-up meeting to address our concerns with the executive remuneration report, which we voted against at the 2021 AGM. Following our meeting and feedback from shareholders, the report was revised and the pay increase was cancelled.

Further detail can be found in our Stewardship Activities report, available at ruffer.co.uk/2021-Q2-stewardship

Engagement in focus

ExxonMobil

EXXONMOBIL is a multinational oil and gas company with upstream, downstream and chemicals businesses. The company is headquartered in the US.

ExxonMobil's annual general meeting (AGM) was held on 26 May.

RUFFER'S STEWARDSHIP JOURNEY OVER THE LAST FEW YEARS

Ruffer has engaged with ExxonMobil over the past three years, both independently and through the Climate Action 100+ working group. Since 2016, Ruffer has supported, voted for, and co-filed several shareholder resolutions.

In 2017, the shareholder resolution filed by the Church Commissioners for England in partnership with the New York State Common Retirement Fund asked ExxonMobil to report annually on the business implications of a well below 2°C climate scenario. The resolution was successful, with 62.1% shareholder support, despite not receiving the backing of ExxonMobil's board.

This resolution led to ExxonMobil producing its first annual Energy and Carbon Summary Report in 2018, however it was felt that the disclosure did not go far enough. In November 2018, Ruffer participated in a Climate Action 100+ group meeting with the company in Boston to discuss the initiative's core objectives of improving governance, reducing emissions and increasing disclosure, in particular across its value chain. ExxonMobil remained resistant to pressure to disclose targets to reduce its greenhouse gas emissions in line with the Paris Agreement.

In 2018, Ruffer co-filed another shareholder resolution which asked the company to disclose short, medium and long-term greenhouse gas emissions reduction targets that are aligned with the Paris Agreement. ExxonMobil asked the US Securities and Exchange Commission (SEC) for, and was granted, 'no-action' relief and so did not include the resolution on its 2019 ballot for the AGM.

Issues: Environmental and governance – climate change and board structure

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. In 2021, the initiative was supported by 570 investors, representing $54 trillion in assets under management.

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 preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

VOTE AGAINST THE NON-EXECUTIVE DIRECTORS

We subsequently voted against the re-election of all Non-Executive Directors at the 2019 and 2020 AGMs as we did not feel they appropriately represented shareholder concerns regarding climate change and the risks this poses for the company. We also supported a shareholder resolution asking for an independent Chair of the Board due to the company's unsatisfactory handling of the Climate Action 100+ shareholder proposal, including the decision to seek 'no-action' relief from the SEC, and the slow progress of engagement with Climate Action 100+.

Our concerns about ExxonMobil's approach to climate change and the limited progress of our stewardship activities were incorporated into our investment decision-making and played a key part of our decision to significantly reduce our holding in ExxonMobil in the first half of 2020. When Ruffer increased its position in oil major companies in the second half of 2020, it was actively decided to hold European energy companies due to their commitments and actions to address climate change.

ACTIVIST INVOLVEMENT

Ruffer welcomed the engagement of two activist investors, D.E. Shaw & Co. and Engine No. 1 towards the end of 2020. We subsequently re-built a small position in ExxonMobil within one of Ruffer's flagship funds and re-engaged with the company in May to understand its perspective on the activist investors, and the direction of travel around disclosing new short, medium and long-term targets, disclosing scope 3 emissions and addressing the Climate Action 100+ Net-Zero Company Benchmark.

Climate Action 100+ Net-Zero Company Benchmark

The Climate Action 100+ Net-Zero Company Benchmark assesses the performance of focus companies against the initiative's three high-level goals: emissions reduction, governance, and disclosure. The Benchmark has been developed to enable investors to track progress of companies against the aims of the Climate Action 100+ initiative in an objective and consistent way.

At the AGM in May, Ruffer voted for three of the independent directors proposed by climate action group Engine No. 1. We view these appointments as a way to accelerate change at the company, support greater board effectiveness and ratchet-up our signalling of discontent. We also supported the following shareholder resolutions: disclosure on climate-related lobbying aligned with the Paris Agreement; reporting on political donations; and to issue an audited report on the financial impact of the International Energy Association's (IEA) Net-Zero Emissions by 2050 Scenario.

OUTCOME OF THE PROXY-FIGHT

The 2021 AGM was the first boardroom contest addressing climate change as the central issue at an oil major company. Two of Engine No. 1's nominees (Gregory Goff and Kaisa Hietala) have been successfully appointed, and it is likely the third (Alexander A Karsner) will be approved pending certification of the final votes. The three nominees would join nine members from the company, including two nominees (Jeffrey Ubben and Michael Angelakis) who were added to the board as part of a pact with D.E. Shaw & Co.

Two shareholder proposals also passed: Report on Lobbying (55.6% votes for) and Report on Climate Lobbying (63.8% votes for). It is worth noting the climate lobbying resolution asking the company to account for if and how its lobbying aligns with the Paris Agreement garnered more support than the generic lobbying proposal.

Ruffer is continuing to engage with ExxonMobil to encourage improvements in governance, board effectiveness, disclosure on climate-related data, its overall strategy, and the Climate Action 100+ Net-Zero Company Benchmark.

Net-Zero by 2050 Scenario

The International Energy Association's 'Net-Zero Emissions by 2050' scenario sets out a roadmap that would be compatible with a 50% probability of limiting the average global temperature rise to 1.5°C.

Net-zero

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

THE DECISIVE DECADE

2030

I was a latecomer to HBOs Chernobyl series, having only just sat down to watch it two years after its release (I was much quicker off the mark with Tiger King). I was struck by two things in particular.

First – a realisation of my own ignorance surrounding the events. It was far more complex than an explosion at a nuclear power station. Second, and more importantly – the parallels that can be drawn between Chernobyl and the climate crisis. The covering up of scientific evidence, cost concerns curtailing decisive action and a preference for the status quo. The inevitable chaos that ensued.

Yet whilst the tragedy of Chernobyl has played out in full, we find ourselves at the 'chaos' stage of the climate crisis. Fortunately, action is being taken, and nowhere is this action against climate chaos more apparent than in the United States.

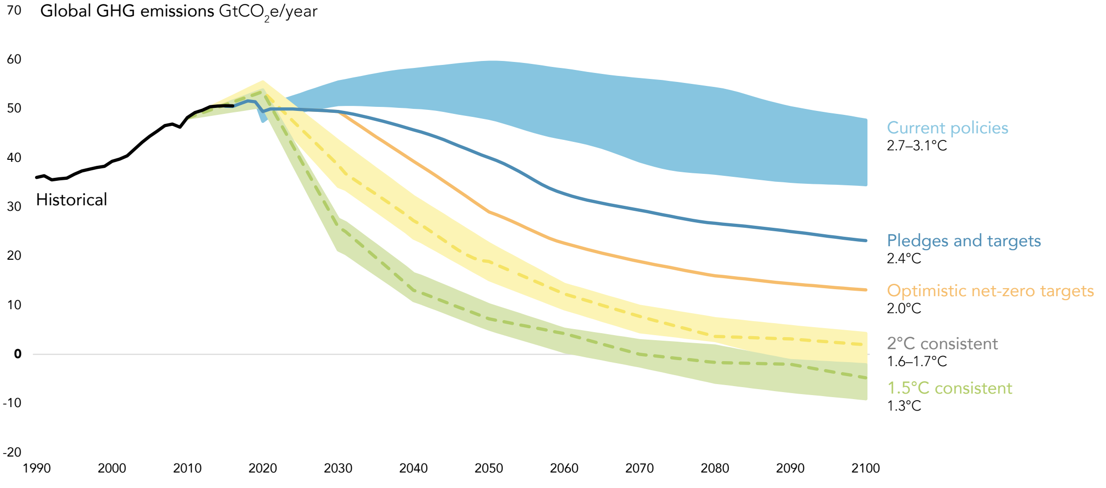
FIRST, A PLEDGE

"This will be a decisive decade to overcome the existential crisis of our time" *US President Joe Biden*

Joe Biden's first day as president was marked by the welcome re-joining of the US to the Paris Agreement – climate change is front and centre of his strategy. Fast forward to late April, and he hosted (virtually, no less) the Leaders Summit on Climate, coinciding with Earth Day. Many countries used the summit to update and accelerate their own emission reduction targets (Nationally Determined Contributions), but the US stole the show. President Biden pledged to cut greenhouse gas emissions (from a 2005 base) by at least 50% by 2030, doubling the previous target set under the Obama administration. The ambition and importance of this latest pledge should not be underestimated, not only due to potential impact on global emissions (the US is currently the largest emitter of CO_2 outside of China), but also due to the global economic and monetary implications that may stem from it.

In spite of these recent pledges, Climate Action Tracker estimates that even accounting for the successful implementation of all known climate pledges on a global basis, there is an 80% probability of temperatures rising by over 2°C by 2100.[1] This would fall short of the original objectives of the Paris Agreement and is even further away from the updated 1.5°C goal scientists believe is required to prevent dangerous anthropogenic interference with the climate system.

WARMING PROJECTED BY 2100



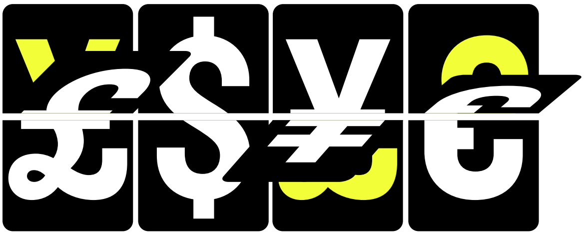
Source: Climate Action Tracker, data to May 2021

Whilst we can expect a range of additional policies and initiatives to be announced ahead of the crucial COP26 conference in November, they are unlikely to be enough. Policymakers need to act in a more co-ordinated fashion with unprecedented speed and scale. Recent estimates put the cost of implementing changes required to meet the Paris Agreement at $73 trillion.[2] But as the US Treasury Secretary, Janet Yellen has emphasised: "The cost of inaction is too great. We must fuel a clean energy revolution."

1 Climate Action Tracker
2 One Earth

WHO WILL PAY FOR THE REVOLUTION?

Higher tax rates seem likely, but a much larger slice of the pie looks set to be paid for by the public purse, whose strings have already been dramatically loosened in response to covid-19. The effectiveness of supportive fiscal policy has been evident throughout the pandemic – turbocharging growth prospects for many countries in the coming year. The fiscal genie will be hard to put back in the bottle and tackling climate change through a 'green recovery' is becoming a key priority for many governments.



In Europe, the latest budget has been boosted further by the NextGenerationEU Recovery Fund, which amounts to a €1.8 trillion stimulus designed to generate a greener and more resilient post covid-19 EU, with 30% set aside for fighting climate change.[3] In the US, President Biden has unveiled a $2 trillion infrastructure plan to 'Build Back Better', which includes proposals to modernise the electricity grid, support the transition to electric vehicles, improve the energy efficiency of homes and schools whilst offering tax credits for clean energy generation.

Maintaining the required momentum and associated expenditure will require unwavering, co-ordinated support from Janet Yellen and Jerome Powell (Chair of the Federal Reserve). Simplistically, they have the potential to print as much money as required at ultra-low interest rates, whilst also maintaining institutional credibility, for now.

> "There is no doubt that climate change poses profound challenges for the global economy and certainly the financial system"

Jerome Powell, Chair of the Federal Reserve

With both Yellen and Powell increasingly vocal about the climate crisis in recent months, we think it is likely another stepping stone along the road to 'modern monetary theory'. Yellen even seemed to hint at this on her own Twitter feed last month, stating "It is the time to recommit our government to playing a more active and smarter role in the economy. The Administration's planned actions are not fiscal stimulus in the way we have seen in the past."

3 European Commission

RUNNERS NOT SPECTATORS

In addition to the heavy lifting conducted by governments, the private sector will need to play an important role with significant investment required in both climate adaption and mitigation.

At Ruffer, this transition presents us a range of investment opportunities in areas such as e-mobility (the subject of the previous quarterly report) and power generation. However, this is a marathon, not a sprint and one must tread carefully to avoid pitfalls: MSCI recently reported that stretched valuations and sentiment have resulted in the clean energy sector becoming the most crowded market segment on record with the exception of tech stocks during the dot-com bubble.[4]

In addition to the danger of overpaying for hot (green) air, the transition presents several other investment risks. The most obvious 'transition risks' relate to changes in public policy, taxation and consumer preferences. A widely used, consistent carbon price (either as a tax or implemented through a carbon trading scheme) would have a dramatic and immediate impact on business profitability and not just in the most obvious sectors. Combatting climate change has the potential to introduce significant monetary instability into the financial system. New technologies and automation (impacting wages) in the longer term are likely to drive deflationary forces, but the shorter-term impulse is likely inflationary. This is not only due to the scale of newly printed money needed to finance the climate transition, but also as companies adapt by shortening and greening their supply chains, whilst simultaneously looking to reduce the carbon intensity of their products and services, with consumers also willing to pay a higher price for 'green' credentials. Ruffer portfolios are well positioned to protect against inflation.

Depending on the nature, speed, and focus of these changes, transition risks will pose varying levels of financial and reputational risk to organisations. How President Biden and his international peers approach these issues will be critical, but how we approach them is crucial, too. Being able to analyse exposure to these risks will be key to achieving our aim of capital preservation. Climate risk and public policy development is, therefore, something we are closely monitoring, not just in relation to listed equities, but across other asset classes, too. As an example, we have recently developed a proprietary sustainability rating model for government debt (more to follow in a subsequent quarterly report) and have been actively researching a range of alternative assets that have potential to protect or benefit portfolios as climate policy becomes further entrenched in the years ahead.

RORY GOODMAN

Investment Manager

4 MSCI

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