Stewardship activities

Q1 2021

COUNTRYSIDE PROPERTIES is a leading UK housebuilder.

Meeting with David Howell (Chair of the Board) and Amanda Burton (Chair of the Remuneration Committee).

Issues: Environmental, social and governance – climate change, stakeholder management, board composition and remuneration

We discussed how the company had approached the challenges presented by the covid-19 pandemic over the past year. We were encouraged the company continued supporting its employees during this period, ensuring motivation has remained strong within all business divisions. We spoke about the recent gender pay gap report and pushed the company on why the gap has not meaningfully narrowed. The new CEO, Iain McPherson, is striving to improve diversity at the leadership level and we will continue to monitor the company's progress.

On the topic of climate change, we spoke about the scaling up of modular housing production which significantly reduces greenhouse gas emissions. Given the scale of the reduction needed across the industry, and the increasingly clear government policy on de-carbonisation, the company confirmed it is focusing on achieving emissions reductions.

We also discussed the company's capital allocation strategy. Decisions in this area are critical and will ultimately determine its long-term financial performance. We shared our view that the company would benefit from a non-executive director with a proven track record in capital allocation. Given the changing strategy of the business, significant changes need to be made to the remuneration policy to ensure management is incentivised to deliver on the revised strategy and, importantly, to align their interests with shareholders. We shared our thoughts around this, including a total shareholder return measure, a meaningful shareholding requirement and ensuring post-cessation and vesting requirements are in line with the guidance from the Investment Association. We attach significant importance to the company's strategy, board composition and executive remuneration as we deem addressing these to be essential for the long-term success of Countryside and all stakeholders.

Whilst we value the engagements with the non-executive directors so far, we have not received acknowledgement our concerns will be addressed. Consequently, we decided to abstain on our votes in relation to the re-election of all non-executive directors.

We will continue to engage ahead of the upcoming remuneration consultation, and we look forward to continuing our discussions.

EQUINOR, formerly known as Statoil, is a Norwegian energy company developing oil, gas, wind and solar energy in more than 30 countries.

Climate Action 100+ group call with Anders Opedal (CEO), Bjørn Otto Sverdrup (Senior Vice President for Sustainability) and other senior colleagues.

Issues: Environmental, governance – climate change, remuneration

Following the recent appointment of a new CEO, Anders Opedal, we reviewed the progress made, given the constructive dialogue between the company and investors in recent years and since the joint statement made in 2019 with the Climate Action 100+ initiative. We welcomed the enhanced greenhouse gas reduction targets, the commitment to reach net-zero emissions by 2050 and the ambition for Equinor to be a leader in the energy transition. Whilst these commitments are important, we pushed the company to provide more information on how it will allocate capital to achieve these objectives. Specifically, we would like to understand how the allocation of capital is aligned with the goals of the Paris Agreement and to have greater transparency around how capital expenditure is allocated.

The company confirmed it is working on its transition plan to achieve net-zero and will provide a strategy update in June. On the topic of remuneration, it was noted this is an area in which little progress has been made since the joint statement. The company committed to developing this further once it has finalised its transition plan.

We will look to engage further with the company following its strategy update in June.

KOITO MANUFACTURING design, produce and market automotive lighting equipment. The company's focus includes halogen and LED headlamps, and the development of next-generation lighting and camera products required for the electrification of vehicles.

Meeting with Hideo Yamamoto (Director and Managing Corporate Officer)

Issues: Governance – cross shareholdings, board independence, MSCI ESG rating

We asked the company for more information on its relationship with Toyota Motors, in light of the fact that it is the company's largest shareholder (with 20% voting rights) and accounts for 40% of Koito's revenues. Mr Yamamoto explained that although it is an important and established relationship, Koito operate as an independent company and are not considered part of the Toyota Group.

We explained the reasons for our vote against the re-election of Mr Yukinobu Suzuki to the Statutory Auditor Board at the 2020 annual general meeting. We did not deem Mr Suzuki to be genuinely independent due to his previous relationship as an advisor to the company. We also explained that we would expect at least one third of board members to be independent, which we define as no previous ties to the company. Mr Yamamoto explained that the company had requested certification of Mr Suzuki's independence from the Tokyo Stock Exchange (TSE) on the basis that his advisory fee was negligible. However, he acknowledged that other shareholders had voted against his reappointment and that the company had taken this on board. Mr Yamamoto also explained that Koito will soon be joining the prime listing on the TSE, which will require it to achieve one third independence and appoint a female board member.

We also discussed the company's unchanged MSCI ESG Research rating ('B' rated). This is mainly centred on the company's corporate governance as it does not have an independent majority board and an independent chair. Mr Yamamoto explained that the company has addressed a number of the points raised by MSCI through improvements to its processes and are continuing work on this. The prime TSE listing will help focus this process.

The company is releasing their first integrated sustainability report in summer 2021 and this will be publicly available in Japanese and English.

LAND SECURITIES is a leading UK real estate company.

Telephone call with Christophe Evain (Non-Executive Director and Chair of the Remuneration Committee) and Barry Hoffman (Managing Director People & Corporate Services)

Issues: Governance – remuneration

We engaged with the company to better understand details of the key ESG objectives that will replace current key performance indicators for the annual bonus, as well as proposed changes to the long-term incentive plan (LTIP). This includes incorporating ESG targets which will account for 20% of the revised performance metrics.

On implementing key ESG objectives, the company confirmed this is a work in progress, but concrete targets will be published in the spring. These are likely to relate to waste reduction, waste recycling (targeting 75%), greenhouse gas emissions reductions, energy management (annual objectives for consumption and intensity), a long-term target of net-zero by 2030 and social contributions (for example community projects).

The company also confirmed it is cutting the pension allowance for directors from 20% to 10%, in line with employees and is introducing new metrics relating to bonus calculations, which we support.

On the LTIP, the company confirmed it is making changes to both the metrics and target ranges to address the lack of clarity around these. The metric of total shareholder return has also been amended to incorporate ESG targets. The new LTIP objectives are yet to be defined and are due to be published in June. Our hope is the new remuneration policy will incorporate the company's goal to be net-zero by 2030. We will continue to engage with the company following the publication of the key ESG objectives and the LTIP objectives in June.

NIPPON TELEVISION (NTV) is the largest television broadcaster in Japan, headquartered in Tokyo.

Meeting with Chizuko Shoda (Managing Director, Investor Relations & Shareholder Relations, Corporate Strategy), Kazushige Nagano (Director, Investor Relations & Shareholder Relations, Corporate Strategy) and Mikiko Nishiyama (Managing Director, International Business Division)

Issues: Social, governance – equal treatment of shareholders, board attendance

In light of a regulatory requirement preventing foreign shareholders owning more than 20% of a Japanese broadcasting business, NTV management took the decision not to pay dividends to any foreign shareholders over this threshold (at present, the level of foreign ownership in NTV is 23%). We challenged the company's decision, on the basis it differs to competitors who pay dividends to all foreign investors. The company confirmed it is considering alternative courses of action, such as a share buyback programme, which would benefit all shareholders equally.

We also questioned the nature of the company's relationship with a significant shareholder who owns a 23% stake. The company confirmed that, whilst it was a controlling stake, the shareholder has no influence over the operations of NTV. Finally, we noted the recent low attendance rate of a company director and expressed the importance of disclosure around board attendance.

Whilst no firm outcomes were achieved on these matters, we are comfortable our concerns were taken on board and will be escalated to senior management.

Rakuten

RAKUTEN was founded in 1997 by its CEO, Hiroshi Mikitani, to help merchants to begin selling online. Today, Rakuten has grown into a group of leading consumer businesses spanning e-commerce, financial services and healthcare. Its ecosystem has over 100 million members.

Conference call and email exchange with Jeremy Tonkin (Vice General Manager of Investor Relations).

Issues: Social and governance – data security, consumer protection, accounting misstatement, remuneration and board structure.

We engaged with the company on a historical data breach and requested details of the measures put in place to prevent a reoccurrence. The company confirmed the steps taken to investigate, report and rectify the breach, including updating the system settings within two days of the security review which brought the data breach to its attention. Longer term, the company has strengthened its security management and intends to regularly review the use of external cloud-based systems.

We also queried the recent rating downgrade by MSCI ESG Research (MSCI). This followed a methodology change by MSCI which brought into question Rakuten's consumer financial protection processes and cited a lack of evidence of best practices. Investor Relations confirmed the relevant practices are in place and the company will respond to MSCI with this information once it has reviewed the new methodology. We intend to follow up on the evidence presented to MSCI and will monitor how this is reflected in their rating.

On governance, the company has a traditional Japanese board with statutory auditors (known as a kansayaku board structure). We explained our support for a three committee board structure and recommended the creation of compensation and nomination committees with fully independent members, in order to improve transparency of decision making. The company did not indicate any pending changes, so we will continue to engage on this point. We also asked for additional information on the performance hurdles related to employee stock options and expressed our preference for more visibility on these.

TBS

TBS is a Japanese media and broadcasting holding company.

Meeting with Dai Nagata (Deputy Manager, Investor Relations), Mina Honda (Deputy Manager, Investor Relations), Yumiko Machii (Director, Investor Relations) and Gohki Kitsugi (CPA, Investor Relations)

Issues: Governance – cross-shareholdings, poison pill

We asked TBS why it maintains large cross-shareholdings in what we see as unrelated businesses. The company explained it views its largest holding (Tokyo Electron, a semiconductor manufacturer) as a financial asset and the shares will act as a source of cash for future investments. We shared our view that this is an inefficient use of capital and were pleased management intend to continue to unwind the company's other cross-shareholdings over time, in line with Japan's Corporate Governance Code. We will monitor the company's progress on this.

We asked TBS to justify its use of a 'poison pill', a takeover defence measure, which we see as a way for management teams to entrench themselves to the disadvantage of shareholders. The company explained it is the only major Japanese broadcasting firm without the protection of a parent company, and therefore views the poison pill as a defence measure against hostile bidders.

Since regulation states TBS could only be bid for by a Japanese company, we highlighted that the poison pill acts only to defend the interests of current management, rather than Japanese national interest. We emphasised the best defence against a hostile takeover is a higher share price, as TBS is more likely to be bid for if it is viewed as undervalued. We explained we will vote against senior management if the poison pill isn't put to a vote. The attendees agreed to share our views with the board and there is potential to reassess the use of the poison pill.

We will continue to engage with the company and intend to vote against the reappointment of senior management, until the poison pill is either removed or put to a shareholder vote.

TS TECH is a Japanese automotive seat manufacturer. The majority of its sales are to Japanese carmaker Honda, which is also the largest shareholder.

Meeting with Hiroaki Nagataki (Public Relations Section, Administration Department) and Hiroyuki Abe (Administration Section, Accounting Department)

Issues: Environment, social and governance – carbon emissions, employee share ownership scheme, board structure and director independence, capital allocation

We expressed support for the company's initiatives to reduce its environmental impact and requested details of the plans in place to further lower its greenhouse gas emissions. The company responded it has focused on making its seats lighter so cars will become more energy efficient over their lifespan, productivity improvements, and energy usage reduction in the manufacturing process. The company highlighted it is aiming to cut greenhouse gas emissions by 50% by 2050, but given Japanese Prime Minister Suga has announced a target of carbon neutrality in Japan by 2050, the company is likely to further increase its greenhouse gas reduction targets.

TS Tech also informed us it is introducing an employee share ownership scheme, to help motivate employees. Ruffer considers this to be a positive step in terms of alignment with shareholder interests, but we expressed our view that the perception of the company would improve only if capital efficiency and return on equity were further prioritised.

There were significant concerns over insufficient oversight given the current board structure, where only two of the 11 directors are independent non-executive directors. This was a major issue given the potential for conflicts of interest, as the company's largest customer is also its largest shareholder. The company has announced it is moving from a kansayaku structure, a traditional Japanese board structure, to an audit and supervisory committee structure and will elect more female and independent directors. We commended the company for making these changes, which are positive initial steps towards better protecting the interests of minority shareholders.

FINANCIAL CONDUCT AUTHORITY

THE FINANCIAL CONDUCT AUTHORITY (FCA) is the conduct regulator for nearly 60,000 financial services firms and financial markets in the UK.

Meeting with Mark Manning (Technical Specialist, Sustainable Finance and Stewardship) and Nicoletta Paraskeva (Senior Policy Advisor, Sustainable Finance)

Issues: Environment, social and governance regulation

Given the UK government's ambition to become a leading centre of green finance, we arranged a meeting with the UK regulator, the FCA, in order to discuss sustainable finance regulations and how they might evolve. Having worked over the last year to prepare for and implement the European Sustainable Finance Disclosure Regulations (SFDR), we offered our views and experience of practical implementation and what lessons could be learnt.

We agreed it is important to protect investors and prevent 'greenwashing'. The SFDR and Green Taxonomy classification system that seeks to address this by distinguishing between different approaches to environmental, social and governance (ESG) investment works well in theory, but has some shortfalls in practice. There is a real risk the rigid and backward-looking classification system becomes a 'box ticking' exercise, with an over-reliance on ratings agencies and favouring disinvestment over engagement.

We suggested a number of improvements to the classification system the FCA may wish to consider if implementing similar regulation. We emphasised the importance of relevance and transparency (to protect consumers) in conjunction with investment flexibility and a classification system that does not discourage environmental transition. We noted that for the government to achieve its net zero ambition and decarbonise the economy, asset managers have an important role to play through active stewardship and this should be further encouraged.

Contact us

FRANZISKA JAHN-MADELL
Director, Responsible Investment
fjahn-madell@ruffer.co.uk
+44 (0)20 7963 8200

ALEXIA PALACIOS
Analyst, Responsible Investment
apalacios@ruffer.co.uk
+44 (0)20 7963 8228

Ruffer LLP is a limited liability partnership, registered in England with registration number OC305288. The firm's principal place of business and registered office is 80 Victoria Street, London SW1E 5JL. Ruffer LLP is authorised and regulated by the Financial Conduct Authority.

RUFFER.CO.UK