Stewardship activities

Q4 2021

ArcelorMittal

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

Climate Action 100+ meeting with Annie Heaton (Head of Sustainability Dialogue and Disclosure), Nicola Davidson (Vice President, Corporate Communications and Corporate Responsibility), Brad Davey (Chief Commercial Officer), Pinakin Chaubal (Vice President and Chief Technology Officer), James Streater (General Manager, Group Sustainable Development), Hetal Patel (General Manager, Corporate Finance and Investor Relations), Tessa Younger (Head of Engagement at PIRC Limited), Heike Cosse (Engagement Lead at Aegon Asset Management) and Rob Chapman (Chair of Hackney Council pension committee member)

Issues: Environmental and governance – climate change, remuneration and business practices

This meeting was held during the consultation period for the Climate Action 100+ Net-Zero Company Benchmark. This open review period ran from 1 December 2021 to 31 December 2021 and will inform the final scores that will be published by Climate Action 100+ in an update to the benchmark in March 2022.

The company began by updating the group on its progress since the last meeting in Q2 2021. It has issued a new, group-level greenhouse gas emissions reduction target of 25% by 2030 (scope 1 and 2) as well as increased the target for its European operations to 35% (from 30%) by 2030. The company aims to have the world's first zero greenhouse gas emissions steel plant in 2025.

We discussed the Climate Action 100+ Net-Zero Company Benchmark and the work the company has done to align its strategy to the framework. The company was disappointed by, and disagreed with, some of the initial scores but we emphasised that the consultation period was an opportunity to improve reporting and disclosure and to flag where there are disagreements. The lead investors requested that ArcelorMittal engages with the Climate Action 100+ Net-Zero Company Benchmark to ensure its progress is reflected in the final benchmark scores.

There was a debate around target timelines with the company admitting that it could not set targets for 2025 as this was too soon and that the 2030 targets it has set are more realistic. The company intends to spend the next five years improving efficiency within its current operations and significant changes will occur from 2025. We encouraged the company to set a roadmap for investors for the next five years to ensure transparency around its progress.

ArcelorMittal previously launched XCarb™, an umbrella brand that groups together all the company's reduced, low and zero carbon steel making activity, along with wider initiatives and green innovation projects. The company reported that it is encouraged by the increased demand from its customers. ArcelorMittal believes that technology will be key to the energy transition and has made several investments in companies that can help it here. It has continued to be involved with new and existing initiatives including the Energy Transition Commission, the Mission Possible Partnership Net-Zero Steel Initiative, the Industrial Deep Decarbonisation Initiative, as well as becoming a founding member of the Breakthrough Energy Catalyst program. The company is a leader in driving the green steel agenda and notes customer demand and industry collaboration are essential. ArcelorMittal has also been working with the Science Based Targets initiative since July 2021 which has convened an expert advisory group on the steel industry. This group will create a new methodology for setting science-based emissions reduction targets for the industry which ArcelorMittal expects to be finalised by the end of 2023.

ArcelorMittal has had mixed feedback on conducting a Say on Climate vote at their next AGM and therefore did not confirm if it will put forward this resolution. The lead investors discussed why this is an important step and encouraged the company to push forward with this.

The meeting also discussed the company's new climate-related remuneration policy which will link 30% of the long-term incentive plan grant to safety, climate and diversity targets from 2022. We emphasised that the remaining 70% of incentives should not conflict but rather also align with these ESG targets. On the topic of lobbying the meeting also requested the company engage with InfluenceMap to reassess its lobbying activity.

We will engage with the company again prior to the 2022 AGM and once the final benchmark scores are released.

ACTIVISION BLIZZARD develops and publishes interactive entertainment and distributes its content and services on video game consoles, personal computers and mobile devices. It is headquartered in the US.

Meeting with Christopher Hickey (Senior Vice President, Investor Relations)

Issues: Social and governance – employee relations, board structure and business practices

We requested this meeting with Activision Blizzard to discuss recent, serious allegations of misconduct, ranging from unequal pay to sexual assault brought by female employees and an investigation by the Wall Street Journal into how these allegations and regulatory probes into the company's culture have been handled by CEO Bobby Kontick.

We focused on trying to understand the company's culture, whether there are systemic shortcomings and what is being done in response. Culture is particularly important in creative industries such as media and entertainment for attracting and retaining top talent. The company pointed to employee feedback surveys resulting in being recognised on Fortune's 100 Best Companies to Work For® list for four consecutive years. Therefore, it does not believe it has a toxic working culture, however the company acknowledged it is facing an employee relations crisis, in part due to how it responded internally to a lawsuit brought by the California Department of Fair Employment and Housing in July 2021.

The company pointed to various initiatives introduced in the last few months to address employees' concerns and increase diversity, including policy changes such as diversity targets, addressing pay gaps, increasing the base salary for temporary workers and making 500 temporary workers full-time employees. The company intends to keep soliciting employee feedback to inform whether additional initiatives are required. Progress on consolidating and centralising human resources functions across the company's three business units (Activision Publishing, Blizzard Entertainment and King Digital Entertainment) which began in 2019, has helped establish a more uniform set of standards.

The allegations the company is facing have led to calls for Bobby Kontick to step down as CEO and so we wanted to understand how the board is managing succession planning, a topic we engaged with the company on in 2019. The company explained this is being considered in the context there is significant talent and experience amongst leaders in the business unit structure of the company (Activision Publishing, Blizzard Entertainment and King Digital Entertainment) as well as the corporate unit.

We are continuing to monitor the company's progress and any further developments.

BARCLAYS

BARCLAYS is a global bank with domestic and European banking exposures, a global investment banking franchise and a US credit card business.

Meeting with James Johnson (Investor Relations), James Ankers (ESG Investor Relations Director) and Maritz Carvalho (Investor Relations)

Issues: Environmental and governance – climate change and board structure

The purpose of the meeting was to receive an update on Barclays' progress on its climate change policies. This followed our first, exploratory engagement with the Chair of the Board in Q3, during which management acknowledged the need for more detailed greenhouse gas emissions data and targets across all sectors covered by its financing portfolios. We were encouraged to learn significant progress has been made in the two highest emitting sectors, energy and power, since this meeting, including the setting of 2025 targets which it is on track to achieve.

In terms of this progress, we also discussed management's decision to use absolute emissions reduction targets for the energy sector and intensity reduction targets for the power sector. With respect to the power sector, management believe the latter is more appropriate as it drives improvements in energy efficiency, whilst continuing to meet power requirements.

Discussion also focused on the next steps for the remaining sectors in Barclays' lending book. The company confirmed that the work has been ongoing; it will announce the findings for two further sectors, cement and metals, in the company's ESG report in February 2022 and plans to address the 10 next highest emitting sectors within 18 months. Most portfolios will be measured primarily based on intensity reduction measures, at least in the earlier stages of decarbonisation. We stressed the need to aim for absolute emissions reduction targets in the long-run, in addition to aligning with benchmarks and target setting with pathways that will achieve Net Zero emissions by 2050.

In terms of the timeline, we questioned whether the pace of delivery could be improved if more resources were behind the programme, but Barclays assured us that the timeline is reasonable given the complexity in setting targets for each sector; the programme has significant investment and backing through the executive committee and resource is not a constraining factor.

We encouraged the company to continue engaging with shareholders on its transition plan ahead of the next Annual General Meeting

(AGM) in 2022. Management confirmed that they are maintaining an ongoing, constructive dialogue with shareholders and activist groups (including ShareAction and MarketForces), and that this is helping to shape ongoing discussions around target setting for each sector.

On succession planning which we discussed at our Q3 meeting, Barclays reported it has been pleased with the transition following Jes Staley's departure and the appointment of C.S. Venkatakrishnan as Group CEO.

CHESAPEAKE ENERGY is a North American onshore oil and gas producer.

Meeting with Brad Sylvester (Vice President, Investor Relations and Communications), Brian Woodard (Director, Government and Regulatory Affairs), Maggi Young (Director, Government and Regulatory Affairs) and Gordon Pennoyer (Director, Communications and Investor Relations)

Issues: Environmental, social and governance – climate change, environmental reporting, employee relations, board structure, remuneration and MSCI ESG rating

The meeting was organised to discuss Chesapeake's ESG approach following the company's Chapter 11 restructuring and recent CEO appointment.

We were assured that the new CEO, Nick Dell'Osso, is embracing ESG considerations in his management. Environmental and safety performance is now part of the executive compensation programme. Alongside an ESG Advisory Board, an ESG Council was established in 2021 and comprises a cross-section of the employee base. The company is about to release a new ESG report and a microsite, which will provide real-time data on issues such as greenhouse gas emissions reduction targets. The company invited our feedback on this report which we intend to provide.

We were pleased to see that the Chair and CEO roles have now been separated. Chesapeake now plans to appoint a new CFO, Chief Operating Officer and a Chief Sustainability Officer. Asked about board diversity, the company said it hopes to have a larger, more robust and diverse board going forward. Although Chesapeake believes it is in line with its US upstream peers across its employee base, it is looking to improve and a Diversity and Inclusion specialist has been hired to assist with this.

Turning to environmental issues, Chesapeake views gas (around 75% of revenues) as a key part of the low-carbon transition due to its reliability and its increasing demand in India, China and Europe. The company aims to reduce methane intensity to 0.09% (total methane emissions / total gas produced) by the end of 2022 and greenhouse gas intensity to 5.5 (tonnes CO_2 emitted per thousand barrels of crude oil equivalent produced) by 2025, and it now believes that it will achieve these targets early. Its other focus is ensuring all of its gas production is certified as responsibly sourced by the end of 2022. Management views the low-carbon transition as an opportunity for the business.

We also discussed the company's MSCI ESG rating (upgraded from 'CCC' to 'B' rated in July 2021) and how this could be further improved. We agreed to organise a follow-up meeting in the new year to provide feedback on the company's ESG reporting and data disclosure.

COTY

SINCE 1904

COTY is a global beauty company making cosmetic, skin, fragrance and hair brands and is headquartered in the US.

Meeting with Anna von Bayern (Chief Corporate Affairs Officer), Kristin Blazewicz (Chief Legal Officer and General Counsel), Christina Kiely (Vice President Legal, Corporate Governance, Securities and Finance), Pippa Maloney (Senior Global Sustainability Manager), Mathilde Thiery (Global Sustainability Manager), Olga Levinzon (Vice President, Investor Relations) and Brennan Matthews (Investor Relations)

Issues: Environmental, social and governance – climate change, environmental reporting, raw materials sourcing, board structure and MSCI ESG rating

Management and the restructuring story are integral to our investment thesis on Coty and we therefore set up this initial meeting with the company to address the key risks and opportunities identified.

We believe effective governance practices are key to setting the right tone at the top, particularly in the case of Coty. Given the ownership structure of Coty (JAB is the controlling shareholder and has been instrumental in hiring Coty's new CEO, Sue Nabi) and the large representation of shareholder appointed members on the board, we wanted to understand what practices are in place to ensure the company acts in the interests of minority shareholders. The board has been refreshed over the last 12 months with the appointment of several new members and given the difficult period Coty is coming through, we acknowledged the importance of certain long-tenured members, including the chair of the board, given the experience and skill set they bring. However, we identified that succession planning should be a key priority and we took the opportunity to reiterate our expectation that over time the board continue to be gradually rejuvenated to include new members.

We were encouraged to hear how Sue Nabi, Coty's newly appointed CEO, has been key to driving the cultural shift towards ESG within the company. Executive compensation is not currently linked to the company's sustainability targets, however the company acknowledged that this feedback has also been received from other shareholders. Given Coty's progress on sustainability we wanted to understand how oversight and accountability is being managed. The company explained that this has not yet been formalised and we stressed the importance of having an individual board member with the appropriate expertise and passion who is accountable for sustainability.

The company was receptive to our feedback and confirmed the insights from the meeting will be shared internally.

Product carbon footprint is a key environmental consideration for Coty. We discussed the work that has been done internally to reassess Coty's carbon footprint following the separation from Wella Company. This has now been completed and the company is working on the internal validation of its targets which will be aligned with the Science Based Targets initiative and disclosed in 2022. As these will be based on a 2030 timeframe, we encouraged the company to consider setting interim targets to help stakeholders monitor its progress. Other topics discussed included initiatives around raw materials sourcing (such as Indian Mica) and how the company has implemented supplier assessments in its value chain. We encouraged the company to engage with ESG ratings agencies such as MSCI to ensure its policies, practices and progress are accurately reflected in its overall rating.

Given this was our first meeting on these topics we look forward to continuing our engagement with the company and will be monitoring its progress.

CURRYS is a retailer of electrical and technology products and services operating throughout the UK, the Nordics and Greece.

Call with Moira Thomas (Director of Group Sustainability), Assad Malic (Director of Corporate Strategy) and Dan Homan (Head of Investor Relations)

Issues: Environmental, social and governance – climate change, environmental reporting, access to technology and remuneration

This was our first formal meeting with the company's new Director of Group Sustainability, Moira Thomas, and we took the opportunity to discuss a wide range of topics. We have been pleased to see the company's clear commitment to ESG initiatives and asked about the board's engagement with its new sustainability agenda. We were encouraged to hear that the board has increased the size of the sustainability team and formed an ESG committee that was made a formal sub-committee of the executive-committee last year; in terms of accountability, this team oversees the entire business and reports to the board at least twice a year.

On greenhouse gas emissions, we discussed the company's Net Zero targets and the challenges associated with achieving the same level of reductions going forward. So far, scope 1 and 2 emissions have been reduced by 80% and the company has admitted that while the final push will be harder, they are committed to reaching Net Zero emissions by 2040. Scope 3 emissions are a bigger challenge for Currys (these comprise the majority of the company's emissions); we discussed how the company is using the EcoVadis carbon tool to increase visibility of supplier emissions (scope 3) as currently 87% of these scope 3 emissions come from products-in-use so reducing emissions here is key.

We also discussed the company's commitment to several initiatives which we believe demonstrate its commitment to its sustainability roadmap. Currently it is a supporter of the British Retail Consortium Climate Action Roadmap and the Digital Access for All (DAFA) initiative, a member of EV100 and it has a technology partnership with Age UK; it is also bringing in additional resources to help it deliver on its ambition to eradicate digital poverty by 2030.

Other topics discussed included data reliability and transparency, product-life cycle analysis, its MSCI ESG rating and incorporating ESG targets in executive remuneration.

Given this was our first meeting on these topics we look forward to continuing our engagement with the company and will be monitoring its progress.

EQUINOR is a Norwegian state-owned energy company developing oil, gas, wind and solar energy in more than 30 countries.

Climate Action 100+ group call with Anders Opedal (Chief Executive Officer) and other senior colleagues

Issues: Environmental and governance, climate change and lobbying

As part of the Climate Action 100+ working group for Equinor, we engaged with the company's CEO and senior colleagues. Our discussion focused on Equinor's climate change strategy.

The company articulated its position as an early mover into renewables, aiming to build out further capacity by 2030. The team acknowledged the importance renewable energy plays in the transition to a low-carbon economy, as well as the need for carbon capture and storage technology supported by government policies. The company is working with the Norwegian government on the Northern Light project, a CO_2 sequestration project to be completed in 2024 with a capacity of up to 1.5 million tonnes of CO_2 per year. The project aims to be a solution to cut emissions from industrial sources in Norway and Europe.

Equinor announced earlier this year its intention to submit its energy transition plan for advisory vote to shareholders at its 2022 AGM. Ruffer believes this is an important step in the right direction. Equinor will report annually on progress and update its transition plan every three years. This initiative sets the scene for ongoing dialogue with investors and enables the firm to gain a holistic view on its sustainability progress.

Additionally, Equinor articulated its new biodiversity position. Ruffer welcomed this development given how closely biodiversity and climate change issues are linked. The company aims to establish voluntary exclusion zones for its activities and develop a net-positive approach for projects in high-risk areas.

The collaborative group of investors also addressed the company's stance on climate-related lobbying and Equinor reassured investors that it conducts an annual review of its trade association and industry memberships' climate policy alignment with the Paris Agreement. Over the years, Equinor has left some memberships after misalignments were identified. We support Equinor's approach.

We look forward to continuing our engagements with Equinor.

II-VI

II-VI is a global leader in engineered materials and optoelectronic components for a range of end-market applications. It is headquartered in the US.

Meeting with Marc Pelaez (Lead Independent Director), Dr Shaker Sadasivam (Independent Director), Jo Anne Schwendinger (Chief Legal and Compliance Officer and Corporate Secretary) and Mary Jane Raymond (Chief Financial Officer)

Issues: Governance – board structure and remuneration

This was our first meeting with members of the board and was arranged to assess our voting decisions ahead of the 2021 AGM. The main topic of the meeting was board structure and effectiveness, in particular succession planning for long-tenured directors. We discussed this in the context of the reappointment of Howard H. Xia, who has served on the board for more than 10 years and is a member of the Audit committee. We also highlighted our concerns that the Chair of the Audit committee is not independent, having served on the board for more than 19 years.

Marc Pelaez explained how the board approaches succession planning, including the annual board self-evaluation and 360-degree review process for directors and the mandatory retirement provision when a director reaches 75 years of age. Given the complexity of II-VI's business, it is important the board balances this with the skills of longer-tenured, experienced board members. Committee assignments are also reviewed annually and we were advised we can expect announcements on the committee and board structure and leadership positions following the AGM.

We also discussed the appointment to Dr Vincent Mattera, CEO, to the role of Chair of the Board which we do not consider an independent appointment. We asked for an explanation as to why one of the independent directors is not an appropriate candidate and what considerations were taken into account. We provided feedback that in these circumstances we would expect to see a very strong Lead Independent Director to ensure there is sufficient counter-balance to management. In addition to the announcements after the AGM, the company said that it is likely the roles would be split in the future. We also took the opportunity to ask about the rationale for having a classified board structure and the skills and criteria that the board deems important when evaluating new members.

On executive remuneration, we asked the board to explain the nature of the deferred compensation paid to the CEO and the circumstances under which these amounts would not be paid. We also asked about the tenure of the company's audit firm as this has not been refreshed for a number of years.

We communicated to the company that we will be supporting each of the resolutions being put forward at the AGM and we will continue to engage with the company particularly on succession planning.

International Petroleum Corp.

INTERNATIONAL PETROLEUM CORPORATION is an oil and gas producer operating in Canada, Malaysia and France.

Meeting with Mike Nicholson (CEO) and Rebecca Gordon (VP, Corporate Planning and Investor Relations)

Issues: Environmental – climate change

This is an ongoing engagement, having previously discussed the company's approach to reducing its net greenhouse gas emissions by 50% by 2025, versus the previous target of 2019. In the meeting we discussed the importance of a clear Net Zero ambition, which the company does not currently have. We highlighted the growing importance of Net Zero targets to investors, including Ruffer, who increasingly expect companies to articulate how and when they will achieve these. We highlighted the risks to the company's reputation, as well as its cost of capital, of not having an adequate plan and pointed out the recent publications by the Net Zero Asset Managers Initiative and the Institutional Investors Group on Climate Change (IIGCC).

The company acknowledged the importance of developing a coherent Net Zero plan and the CEO agreed to familiarise himself with investor trends. We intend to follow-up during the first half of 2022 to understand how the company's view is evolving.

PFIZER is a US pharmaceutical company that develops, manufactures and distributes biopharmaceutical products worldwide.

Meeting with Chris Gray (ESG Lead), Bryan Dunn (Senior Director, Investor Relations) and Ronen Tamir (Senior Director, Investor Relations)

Issues: Environmental, social and governance – low-carbon transition, access to medicine, business practices, board structure, remuneration and MSCI ESG rating

We requested this meeting with Pfizer to build our understanding of the company's ESG integration, including its climate strategy and the issues surrounding access to medicine in light of the covid-19 pandemic.

We asked about Pfizer's climate strategy and whether it is planning to meet the targets of AstraZeneca's 'Ambition Zero Carbon', which commits to Net Zero Scope 1, 2 and 3 greenhouse gas emissions by 2025. Pfizer is targeting Net Zero across scope 1 and 2 emissions by 2030. In terms of scope 3 emissions, Pfizer has a team that is focused on supplier engagement, which encourages its suppliers to meet carbon neutrality pledges and adopt science-based targets. However, the company acknowledged it is unlikely to match AstraZeneca's pledge.

On the topic of lobbying transparency, we asked how the company has responded to ISS's recommendation that shareholders vote against management on lobbying resolutions. Pfizer produces a political lobbying report and it feels that it is not out of line with its peers in its disclosure of these activities. We acknowledged that lobbying plays a significant role in the pharmaceuticals industry but urged the company to provide more detailed disclosure going forward.

We also discussed the reasons for Pfizer's unchanged MSCI ESG Research rating ('B' rated), which categorises the company as a sector laggard. The low rating is mainly attributable to the emphasis of controversies in MSCI's methodology, however the company acknowledged there is more it can do to engage with ratings agencies and improve its disclosure.

On access to medicine, the company pointed to its work with the Global Alliance for Vaccines and Immunization (GAVI) in lower- and middle-income countries. Pfizer decided not to licence out production of its covid-19 vaccine because of supply chain constraints which the company felt it was best placed to manage, however, it has licenced out production of its new covid-19 pill and will not be collecting royalties on this.

Finally, we asked how the company's governance structure and policies support its ESG initiatives. At board level, there is Governance and Sustainability Committee that has responsibility for this. There are ongoing discussions about introducing ESG metrics into remuneration; the board has looked at the company's peers for comparison but want to ensure that the metrics are suitable.

Shell

ROYAL DUTCH SHELL is a global energy and petrochemicals company involved in exploration, refining and marketing in more than 70 countries.

Meeting with Anna Dumanska (Investor Relations Officer, ESG)

Issues: Environmental and social – climate change, low-carbon transition and community relations

The meeting was organised as an update on Shell's climate transition strategy, as well as to discuss the company's decision to divest its onshore oil production in Nigeria.

We discussed Shell's Net Zero strategy. In addition to its existing carbon intensity reduction targets (covering scope 1, 2 and 3 emissions), Shell has announced absolute reduction targets of 50% compared to 2016 levels across its scope 1 and 2 emissions by 2030. We welcomed this and encouraged the company to consider setting interim absolute reduction targets. We acknowledged it may be difficult to extend this current target to scope 3 emissions (which account for 90% of Shell's emissions) in the near term as it will require significant shifts in consumer behaviour.

We asked for more detail on the 'offsets' aspect of Shell's transition strategy, primarily carbon capture and storage (CCS) and nature-based solutions (NBS). We were informed these are still a nascent part of the business and are therefore a minimal part of its capital expenditure. Shell is targeting 25 million tonnes per annum (mtpa) by 2035 but admitted this is ambitious as an average CCS plant captures around 1.5 mtpa and currently Shell has two operating plants. We asked if its targets were dependent on government support and a particular carbon price. The current projects are dependent on both government and corporate partner support; carbon prices are used in the models but these vary by project and jurisdiction.

On Nigeria, we asked whether plans to exit its onshore oil operations had a timeline and what this meant for the ongoing controversies with local communities. It was explained the company had attempted multiple unsuccessful initiatives (Nigeria represents Shell's largest social investment spend) and divestment was the last resort. This may take some time due to the nature of the assets. We were reassured Shell was not relinquishing its commitment to help communities affected by past controversies. We asked why Shell is still deemed to be breaching the UN Global Compact which is due to the ongoing lawsuits. We encouraged the company to continue engaging with ESG ratings agencies such as MSCI on this progress.

We were keen to understand more about Shell's consumer strategies which are focused on encouraging the decarbonisation of transportation and haulage. We agreed that this merited an additional call, which we plan to organise in the new year.

TEIKOKU SEN-I is a Japanese manufacturer of disaster recovery equipment.

Meeting and email communication with Tatsuru Okamura (Board member)

Issues: Governance – board structure and business practices

The main focus of this follow-up meeting was to discuss particular concerns we have around the company's governance and to share our feedback on where the company could make improvements.

We queried the current board structure and in particular noted our concerns over the lack of independent external directors. We explained this in the context of our vote against the appointment of the Chair of the board and one of the outside members at the 2021 AGM as we would like to see at least 50% of the board members as independent appointments. While the company explained that these issues are not currently discussed at board level, it acknowledged that its current structure will not meet the one-third minimum for Prime Market listed companies under the proposed Corporate Governance Code revisions taking effect this year ahead of the Tokyo Stock Exchange changes in April 2022. We recommended that the company consider appointments outside of its external shareholders to ensure independence and were assured it will seek outside directors as defined in the Japanese Companies Act.

We also recommended the creation of compensation and nomination committees with fully independent members to enhance board independence and move the company towards the best practice outlined in the Corporate Governance Code.

Finally we discussed the company's cross-shareholdings and use of a poison pill (a defense tactic to prevent or discourage hostile takeover attempts). As the existence of a poison pill may directly disadvantage shareholders it is Ruffer's policy to engage with the company and if required, vote against the appointment of the CEO and Chair of the board. We explained that we would incorporate this into our voting decisions at the next AGM.

The company continues to be receptive to our feedback and we will continue to engage on these issues and monitor its progress.

TOEI ANIMATION

TOEI ANIMATION is a Japanese producer of animated television series and films.

Meeting with Aoi Kazakami (Assistant Manager, Corporate Strategy)

Issues: Governance – board structure

We noted our concerns over the insufficient independent oversight in the current board structure as none of the three outside board members can be considered genuinely independent. The potential for conflicts of interest concerns us, as the company is a controlled subsidiary of Toei Co and its largest customer, Bandai Namco, is also a large shareholder. We voted against the appointment of one outside directors at this year's AGM.

The company responded it operates in a niche sector and few potential independent directors have sufficient knowledge and experience within Japanese animation. However, it admitted views on good governance are changing in Japan and it is therefore likely to make improvements to its board structure, and this is currently being discussed within the company. We asked the company to ensure truly independent directors are appointed to the board at next year's AGM.

The company was receptive to our feedback and appears willing to make efforts to improve its governance, but we will continue to engage on these issues.

VOLKSWAGEN is a German automotive manufacturer, which produces and sells passenger and commercial vehicles globally.

Meeting with Alexander Hunger (Investor Relations Manager, Equity and ESG)

Issues: Environmental and social – low-carbon transition, environmental reporting, labour standards and raw materials sourcing

Subsequent to our engagement in Q4 2020, we initiated a follow-up on the company's progress, particularly after its recent updates on Net Zero commitments.

We asked why the company has recently declined to join the auto manufacturers' RouteZero pledge to sell exclusively electric vehicles by 2040. It was explained that, in the short-term, supply constraints were holding back battery and therefore electric vehicle production. In the longer-term, Volkswagen's large footprint in the US and China prevent it from making this commitment. If the business was solely focused in Europe, this target may have been possible. In addition, the company's compliance regime following the 'Dieselgate' scandal has been strengthened, making management wary of committing to the initiative if they cannot be sure of meeting the pledge. While we were disappointed to hear this, we appreciated this could also be a demonstration of conservative governance.

With Volkswagen's in-house battery production, we enquired about raw materials in its supply chain. Volkswagen introduced a Responsible Purchasing policy in 2019, overseen and implemented by dedicated team of 25 people. It requires suppliers to provide assurance of the source of all materials, especially the 2,000 suppliers deemed highest risk. The policy categorically forbids the purchase of cobalt from the informal mining sector, however, the company acknowledged it is not possible to audit all 40,000 suppliers individually.

On its operations in Xinjiang province, we were assured that all employees have contracts and are not employed through agencies, ensuring there is no slave labour. The company has less control over local suppliers but does not source materials from Xinjiang. Due to China's strategic importance to Volkswagen, the company is sensitive to maintaining good relations with Chinese authorities and is unlikely to close the plant.

We also discussed the company's electric vehicle targets and partnerships to build out charging infrastructure, governance improvements and remuneration policies, including how the company has introduced ESG-linked compensation targets for management and the ongoing fallout from the 'Dieselgate' scandal. We continue to monitor Volkswagen's process, particularly in relation to its Net Zero strategy.

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