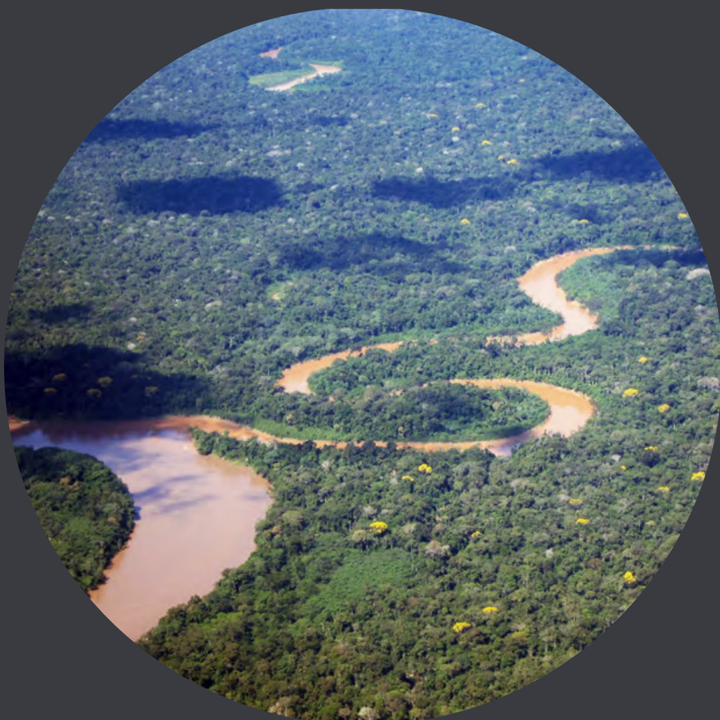
Stewardship activities



Q1 2022

AENA manages and operates airport terminals in Europe and Latin America, with headquarters in Madrid

Meeting with Emilio Rotondo Inclan (Finance Director) and Ana Luisa Zuelta Perez De Guzman (Head of Corporate Governance)

Issues: Governance – board structure

We engaged with Aena ahead of its 2022 AGM on the topic of board structure. Aena's current board has a combined CEO and Chair role, and we believe the roles should be split to ensure a more effective leadership structure. We voiced our concerns, and the company explained the combined role is due to the company's bylaws. Given significant state ownership and a requirement of supermajority voting, the company argued that these bylaws would be difficult to amend. Nevertheless, we do not view those barriers to splitting the roles as insurmountable and believe a vote against the CEO/Chairman's re-election could help send a message on the need for change to the majority shareholder. We informed the company of our intention to vote against the CEO/Chairman ahead of the AGM, which is in keeping with Ruffer internal voting guidelines.

BAYER is a multinational pharmaceutical company engaged in the development, manufacture and distribution of nutrition and healthcare products

Meeting with Matthias Berninger (Global Head of Public Affairs, Science & Sustainability), Klaus Kunz (Head of Sustainability & Business Stewardship, Crop Science), Jana Ackermann (Senor Investor Relations Manager)

Issues: Environmental, social and governance – low-carbon transition, business practices, remuneration and MSCI ESG rating

This was the first ESG focused meeting with Bayer. The team began by outlining the relevance of Bayer's business activities to sustainability issues surrounding agriculture, nutrition, and climate change, as well as acknowledging the challenges relating to the company's acquisition of Monsanto and the subsequent protests and litigation.

In terms of environmental impact, agriculture uses 70% of global fresh water and 50% of the world's land, as well as accounting for 25% of global carbon emissions. This therefore poses great challenges, but also opportunities, for companies such as Bayer.

The company has committed to carbon neutrality in its own operations by 2030. However, it believes that greenhouse gas emission reductions will only happen in developing countries if it is financially attractive to farmers, and Bayer is directing more resources towards this issue.

We asked for more detail surrounding the controversy of genetically modified organisms (GMO). Bayer noted that this continues to be divisive but that the company sees it as an essential driver of the future resilience of agriculture. It noted that regulators are beginning to change their views on GMO regulation: developing countries such as Nigeria, Kenya and India are adopting more genetically modified crops, and the UK government and EU Commission are more supportive of gene editing.

However, Bayer also conceded that its previous genetic modification of neonicotinoids has been directly linked to the decline of global bee and butterfly populations. Bayer acknowledges the shortcomings of its defence in the 2000s and the company has improved on this and now takes a proactive, rather than reactive, approach. We also discussed the continued litigation surrounding Monsanto's Roundup weed-killer products. This is an ongoing issue, but Bayer has growing confidence in their bid to prevent future glyphosate lawsuit claims since the US Supreme Court is requesting views from the US Government on this matter.

On relations with ratings agencies, Bayer said that it was now engaging proactively with them. One of the main challenges is that Bayer's universe of companies is very diverse, which can make improving on multiple metrics difficult. The company believes its 2021 sustainability report addresses many of the agencies' issues. One of the main focuses is on improving its position in the Access to Medicine Index. Bayer reiterated that improving its ratings was a company priority.

Finally, we asked how management was incentivised to focus on sustainability. The company explained that 20% of management's long-term remuneration plans are now linked to sustainability targets; half to decarbonisation and half to wider sustainability targets, such as supporting 100 million smallholder farmers in developing countries.

We are focused on building our relationship with Bayer through voting and engagement.

BP is an integrated energy company headquartered in the UK

Meeting with Ben Mathews (Group Company Secretary) and Paula Reynolds (Senior Independent Director, Chair of the Remuneration Committee)

Issues: Governance – remuneration

We provided a written response to a letter from the Chair of the Remuneration Committee to shareholders on executive pay. The aim of the Chair's letter was to invite feedback on the current executive pay deliberations. The topics addressed included the annual cash bonus and the expected outcome of the long-term incentive plan (LTIP).

We shared our thoughts on the current policies and, whilst we are aware of the social sensitivities of executive pay outcomes, agreed that remuneration is an important tool in attracting and retaining management teams, and that these individuals should be rewarded for delivering exceptional outcomes shared by investors. In the case of BP, we were aware that the CEO had donated 20% of his salary to various mental health charities during the covid-19 pandemic and that the executive team had not received an annual bonus in 2020.

We agreed with the remuneration committee's approach to award executives with a formulaic outcome in 2021; that an annual bonus should be paid according to the framework agreed with shareholders (which includes both quantitative and qualitative factors). However, we suggested that the use of upward discretion in the vesting of awarded shares as part of the LTIP was inappropriate in the context of management and share price performance over the period.

The committee raised two other issues; cash in lieu of retirement benefits and salaries paid to executives in the current year. On the former, we were supportive on the basis that the pension arrangements for executives were aligned with the company's pension arrangements for its UK employees. On the latter, given the proposed adjustment was linked to inflation, we sought to confirm that all UK staff would receive a similar adjustment to allow them to maintain purchasing power.

The committee responded to us in writing, thanking us for our contribution and confirming that the general feedback they had received reflected our views. At the next AGM we will have the opportunity to vote on the pay resolution and we hope to continue to engage with BP on their remuneration policies in 2022 and beyond.

CHESAPEAKE ENERGY

CHESAPEAKE ENERGY is a North American onshore oil and gas producer

Meeting with Brad Sylvester (Vice President, Investor Relations & Communications), Brian Steck (Director), Matt Gallagher (Director), Maggi Young (Director,Government & Regulatory Affairs), Brian Woodard (Director, Government & Regulatory Affairs)

Issues: **Governance – remuneration**

We met with Chesapeake board members to discuss their new compensation scheme, and we were particularly interested in the thought process behind the design of the new scheme. Chesapeake seeks to emphasise a strong link between board and executive compensation, and returns to investors. Historically, compensation has been linked to relative performance but going forward, more emphasis would be put on absolute performance. The long-term incentive plan (LTIP) would be 50% weighted to absolute return and 25% weighted to relative performance (relative total shareholder returns), meaning 75% of reward is performance driven.

The compensation committee wanted to move away from the '3P's' model of pay (pollution, profits, and perception) and highlighted that ESG metrics (carbon emissions, safety performance and spills) would be 20% of the annual incentive plan. Furthermore, if the minimum thresholds for these three categories are not met, none of the other metrics can pay out more than 100%. We are comfortable with the rationale for the compensation structure and acknowledge the board were thoughtful about the revised approach, including balance retention of human capital over 'right-sizing' the amount of total pay.

In relation to the ESG metrics in the annual incentive plan, we asked whether targets for these metrics would be disclosed in advance. The board explained that, for this year, these had already been decided but will be reassessed mid-year when more data is available. That being said, the company is open to disclosing these targets in advance in the future.

When explaining the ESG link to the strategic leadership goals, Chesapeake highlighted their main goal is to improve safety for the contractor community as well as to improve their engagement and disclosure surrounding ESG.

We expressed our preference for financial metrics as a gateway rather than solely ESG metrics. Chesapeake also expressed their desire for a metric on progress towards long-term emissions goals but have neither the right baseline data nor level of confidence to include such a measure in this policy iteration. We fed back that the inclusion of carbon reduction targets in the LTIP would be helpful and preferable, not to mention industry leading, given reducing emissions is a longer-term project.

Given the company's recent emergence from Chapter 11 bankruptcy, we wanted to know how discipline over debt would be maintained. The board highlighted the importance of having the right team in place and are confident in current management's approach. We also raised the idea of stretching the performance/vesting period beyond three years, but the compensation committee have chosen not to do so at this stage.

Finally, we asked whether any negative feedback had been received from management regarding the new compensation scheme. All feedback received was expected and managed appropriately by the compensation committee.

Chesapeake asserted that they are very open to collaboration and believe that they can do well for shareholders if communication is open and ongoing. The company wants to be transparent with shareholders and encouraged us to let them know if there is any more information we need.

DASSAULT AVIATION is a French aerospace company manufacturing military aircraft and business jets

Meeting with Nicolas Blandin (Investor Relations), Louis Proisy (Investor Relations), Yvan Gaudry (Head of ESG)

Issues: Environmental, social and governance – climate change, labour standards, weapons, business practices and MSCI ESG rating

This was an introductory meeting with Dassault Aviation to discuss sustainability.

On carbon efficiency, the company explained that all of its aircraft are capable of using a 50% sustainable aviation fuel (SAF) blend and that they will soon be able to run on 100% SAF. The company highlighted that its business jets (Falcons) are more fuel efficient than its main competitors. We encouraged Dassault Aviation to set targets for increasing the use of SAF and the company answered that its roadmap is already more ambitious than that outlined in current regulations.

On nuclear weapons, the company highlighted that while its fighter jets (Rafales) can carry nuclear weapons, those it exports are not nuclear-capable. In addition, all exports must be approved by the French state. Dassault Aviation are proud of the role it plays within

French defence policy and the nuclear deterrent is part of that.

We discussed the company's relationship with its workforce. There is an employee representative on the board, and it has had longstanding positive relationships with both employees and unions. The company acknowledged that there has been some recent strike action related to the perceived insufficiency of wage increases but highlighted that the Dassault Aviation minimum wage is 140% of the legal minimum wage and employees also receive significant bonuses.

We questioned recent related party transactions with the controlling shareholder. The company argued it made financial sense to own the land on which the factories are built rather than rent it and it does not expect similar transactions to happen in the future. An independent valuation of the land was performed, and the transactions were fully discussed with auditors.

We asked Dassault Aviation to comment on the serious allegations of corruption in India. The company said that it was unable to comment on any specifics but stated that all regulations and legal requirements were followed. The company attempted to talk down the scale of allegations, but we explained that they seemed very relevant to us.

We noted that the company has poor ESG ratings from several of the major providers, such as MSCI. The company explained that it now has a policy not to work with the ESG ratings agencies. It explained that it finds it very difficult to work with them and highlighted instances where these businesses have published false data relating to Dassault Aviation. We explained how important it is for companies to engage with these agencies and made it clear that we fundamentally disagree with the current policy. In our view, the company is penalising itself relative to competition, and it should be looking to improve interactions with and disclosures to wider market participants.

We will continue to engage further to encourage Dassault Aviation to become more open. This will include getting the company to correspond with the ESG ratings agencies. It was suggested in the meeting that we have a call with the company's COO on this matter, which we intend to do.

FUJITEC is a Japanese manufacturer of elevators and escalators

Meeting with Kenji Kobayashi (Investor Relations)

Issues: Governance – strategy and capital structure and business practices

We discussed the structure of the company's new mid-term plan, which has received public criticism from several large shareholders. We spent time trying to better understand how the company has set future targets since the reports provide lots of content, but there was little detail justifying the plans. The revenue growth projection feels particularly optimistic and the increased budget for capex and M&A appears excessive. We explained our view that the company needs to improve on its public communication with investors.

We also discussed the company's plans for disposing of current cross-shareholdings.

The company acknowledged our concerns and noted that it would provide investors with additional detail to better appraise their mid-term targets.

GMO INTERNET operates a collection of Japanese technology businesses which include internet infrastructure, advertising and media services and incubation

Meeting with Atsushi Maruyama (Investor Relations)

Issues: Governance: board structure and business practices

A meeting to discuss various governance issues relating to the structure of the board. In the last AGM, we voted against the re-appointment of an audit committee member due to his tenure of 18 years, which we see as compromising his independence. We highlighted the importance of an independent audit committee given its role as supervisors of the board and emphasised this in the case of GMO Internet given it has such an influential founder in Kumagai San. We encouraged the company to move to fully independent outside audit committee.

We also voted against the CEO at the AGM and challenged the company on its poison pill (a takeover defence measure), which we view as a key reason for the company's valuation discount relative to peers and deem unnecessary, given 40% of GMO Internet's shares are held by the founder (who would vote against any takeover bid). The company maintained its concern that it does not have a majority vote but thanked us for our feedback and agreed to share our concerns with management.

We questioned the lack of both a nomination and compensation committee. It was explained that these are a work in progress and due to be in place soon. We asked why there are no female board members. It was explained that the company do not have internal targets and that board selection is entirely performance based. We encouraged the company to review its approach and emphasised the importance of a diversity at this level of the business.

The company appreciated our constructive feedback as long-term shareholders and will feed our views back to management. We will monitor progress on these issues ahead of the next AGM, where we will vote against the board if improvements are not made.

HENSOLDT

HENSOLDT is a defence electronics company in Europe, focusing on radar, avionics, spectrum dominance and optronics for air, sea, land and security missions

Meeting with Sarah Sterzl (Group Sustainability Officer), Carolin Weirauch (Head of Corporate Legal),Veronika Endres (Investor Relations)

Issues: **Environmental and governance – climate change, board structure and remuneration**

A meeting held to understand more about Hensoldt's corporate governance framework and sustainability strategy to ensure alignment with the interests of minority shareholders. We discussed the company's two-tier board structure and how the board will evolve with the transition of ownership, following the German government and Leonardo – another company in the aerospace and defence (A&D) sector - each taking a 25% stake in Hensoldt. Both parties are entitled to appoint two members each to the supervisory board – the former can appoint its members directly whereas the latter's appointees will need to be elected by a simple majority of the vote at the next AGM. KKR, as the initial acquirer of Hensoldt, has been selling down its stake in the company and is expected to keep one seat on the board until it sells the remainder of its holding. We also queried whether there is a policy for the age of board members. The company recommend that supervisory board members are not older than 70 once they've been nominated, and the management board has an age limitation set at 65.

We asked about Hensoldt's remuneration policy, specifically the basis for both short and long-term incentives. Short-term incentives are based equally on three absolute financial metrics and 30% of the long-term incentive plan is based on two equally-weighted ESG metrics – diversity targets and climate impact. The company also noted that long-term remuneration is tied to total shareholder return and order intake.

We are encouraged by Hensoldt's ambition to become the ESG benchmark in the A&D sector and engaged with the company on the best way to achieve this goal. The company has defined an ESG strategy with a detailed five-year action plan, including how to become carbon neutral by 2035, in line with science based targets initiatives and how to leverage technologies for environmental benefits. Hensoldt's aims to be the gold standard for ESG within the sector have been successful so far, with Sustainalitics rating the companytop in A&D, and the first company in the sector to be rated low risk.

We highlighted the importance of continuing to inform the market of Hensoldt's progress on sustainability to encourage investor engagement over exclusion.

MUFG

MITSUBISHI UFJ FINANCIAL GROUP is a financial holding company providing retail and commercial banking services as well as asset management services in Japan and internationally

Meeting with Yutaka Miyashita (Chief Sustainability Officer and Chief Strategy Officer)

Issues: Environmental and governance – climate change and sustainability

We spoke to MUFG's new Chief Sustainability Officer to gain a better understanding of the company's sustainability agenda, policies and targets, following our engagement with Investor Relations last year on these issues. We first discussed Mr Miyashita's new role which enables him to focus on sustainability strategy as well as manage the resources allocated to this. Mr Miyashita is also the Chair of the Sustainability Committee which focuses on measuring portfolio GHG emissions and setting targets, identifying business areas for sustainable finance, reducing company emissions, and strengthening the governance of global initiatives. To this end, MUFG commits to achieve net zero emissions in its finance portfolio by 2050 and its own operations by 2030 as a part of the Net Zero Banking Alliance.

We discussed the company's approach to analysis and target setting for its lending portfolio. MUFG currently run scenario analysis for energy, utilities and automobiles sectors, but are looking to expand this coverage – work is currently ongoing as the company is yet to decide what type of targets to use. MUFG will publish intermediate targets to reduce emissions associated with these sectors by 2030 in April. The company explained its choice of the International Energy Agency Net Zero Emissions Benchmark for their targets as best practice, after reviewing competitors.

We went into detail regarding the company's environmental and social framework regarding new transactions, including revised policies related to coal financing, forestry and palm oil. It has a target for coal-fired power generation to reduce the balance by 50% by 2030 from the 2019 level and reduce it to zero by 2040. Furthermore, MUFG currently targets ¥35tn for sustainable finance lending with, we believe, the potential to revise this lending target upwards in the next few years. The company has reassured us that within sustainable finance, nuclear power is not included.

We encouraged the company to maintain an ongoing dialogue with us and continue its engagements with shareholders on its transition plan ahead of the next AGM in 2022. We look forward to continuing our discussion following the publication of its new report and targets.

Otsuka

OTSUKA is an IT solutions company with a focus on small and medium-sized enterprises. Otsuka offers IT support for client business operations, encompassing both hardware and software

Meeting with Toshihiro Akashi (Assistant General Manager)

Issues: Governance – board structure and remuneration

This meeting focused on governance issues within the company where, in recent years, there have been a number of meaningful shareholder votes against some of the board's proposals. Several of these votes have been centred around director independence. The company highlighted that the number of external directors has increased but acknowledged it still falls short of the threshold required of a prime market listing. Management explained that it is difficult to find appropriate individuals with sufficient understanding and expertise of the business.

We challenged the company's lack of nomination and remuneration committees. The company informed us that it has decided to establish these committees following the 2022 AGM, where each committee will be made up of five members, where three individuals are external directors (one of which will be Chair). This was a pleasing outcome, where we have played a key part in driving this change. In addition, the company decided to abolish the payment of retirement bonuses to corporate auditors and disclose the sums paid to board directors following feedback from investors, including Ruffer, and our vote against this at the 2021 AGM.

We believe Otsuka has greater room to improve governance practices and so we will continue to engage regularly with the company on these topics.

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

Meeting with Jessica Uhl (Chief Financial Officer), Andreas Bork (Senior Investor Relations Officer), Maarten Tiemstra (Senior Investor Relations Officer), Rachel Hunt (Rothschild representative)

Issues: Environmental – low-carbon transition

This was an introductory meeting with Shell's Chief Financial Officer. We have become significant shareholders over the last year and wanted to establish a direct relationship with the company's management team.

As part of our discussion of the company's capital plans, we discussed Shell's ambitions for building out value chains that will be relevant in the energy transition. The struggle for the company has been the ability to successfully communicate the exciting opportunities that will be arising from these investments and efforts.

Given Ruffer's efforts and participation in the Net Zero Asset Managers Initiative, we wanted to open a line of communication and gain insight into Shell's decision-making process when it comes to allocating capital in line with their energy transition plan. This information will serve as a foundation for our engagement plan going forward.

Shell was receptive to maintaining an ongoing dialogue and we intend to engage again in the near future.

In addition, we also participated in a call with Shell's CEO as a part of the Climate Action 100+ initiative. It was an opportunity for us to receive an update on the current challenges that energy markets in Europe face, given the conflict between Russia and Ukraine, and the progress that has been made so far on the energy transition.

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