Stewardship activities

Q2 2022

FUJI ELECTRIC is a Japanese electrical equipment manufacturer

Meeting with Yoshida Miyoshi (Head of Investor Relations)

Issues: Governance – board structure, business practices

Following engagements before and after the 2020 and 2021 annual general meetings (AGM) at which Ruffer voted against three and one director appointments respectively, we met with Fuji Electric to reiterate our stance ahead of the 2022 AGM, including our intention to vote against the re-election of one director. We do not consider him to be independent, given his current position in a cross-shareholding company although Fuji Electric maintained he meets their definition of independence.

Fuji Electric has continued to make governance improvements with further cross-shareholding reductions and is introducing one new independent outside director to the board in 2022. We fully support these changes but explained that we would like to see further progress, particularly with regards to greater independence among the company's statutory auditors. Their four year terms mean 2024 will be the next key AGM to judge whether the company has taken seriously the need for improvements in this key oversight function. Fuji Electric continues to be receptive to our feedback and is making efforts to improve its governance, but we will continue to engage on these issues.

GENERAL ELECTRIC is an American multinational conglomerate operating businesses in healthcare, energy and aviation

Online meeting with Roger Martella (Chief Sustainability Officer) and Julia Chen (Counsel – Corporate, Securities and Finance)

Issues: Governance – board structure, remuneration, ESG rating

As General Electric shifts from a conglomerate into three separate autonomous businesses focusing on healthcare, energy, and aviation, we met with management to receive assurance that Chairman and Chief Executive Officer Larry Culp will be retained to deliver this transformation. Mr Culp is integral to the investment thesis for the company – we view his leadership and management as critical to delivering the value creation strategy outlined by the company. Management commented his role in building a culture of inclusion, humility and teamwork which has boosted staff morale amid uncertainty surrounding the demerger.

We communicated our support of the decision to shrink the board from 18 directors to 13 and would encourage an even smaller board as segments are spun off from the main company. The expertise of board members is broad and should contribute to the success of demerging the conglomerate.

We wanted to understand how the board would respond to shareholders voting against a resolution on executive pay at the 2021 AGM, citing misalignment between the Chief Executive Officer's remuneration package and the downsizing of the business. General Electric engaged with 82% of shareholders following the advisory vote and found that shareholders disagreed with the discretion afforded to the board and felt targets were too easily attainable. The company explained the pay package was designed to retain and motivate Mr Culp through the restructuring but conceded that the timing was unfortunate, coinciding with the covid-related market trough. In response to these concerns, the remuneration level was reduced at the 2022 AGM.

General Electric's MSCI ESG rating may have been depressed as a result of the company's history and the recent downsizing. We understand from the company that it has engaged with ratings providers and explained, whilst legacy issues are being resolved and therefore have a lesser impact on ESG scores, recent business activities have acted as a detractor. We encouraged the company to continue communicating with ratings providers.

Finally, we discussed sustainability, innovation, and company commitments in relation to the transition to Net Zero.

GENERAL MOTORS is a major US automaker undergoing a transformation from internal combustion engines to electric vehicles

Meeting with Ian Scott (Senior Investor Relations Manager), Michael Heifler (Investor Relations Director)

Issues: Social – labour standards

We met with the company to discuss our concerns about the possibility of child labour in the General Motors supply chain, following a shareholder resolution put forward at this year's annual general meeting. The proposal requested the company provide a separate report to establish whether or not child labour exists in their supply chain of electric vehicles. While Ruffer wholeheartedly support the intent of this proposal and are in full support of the company taking every precaution to prevent child labour in its supply chain, we voted against the resolution as we do not believe an additional report would add value or result in any tangible outcomes for the company.

Instead, we felt engaging directly with General Motors would be a more effective way to voice our concerns over the lack of independent audits of suppliers and encourage a higher quality reporting of child labour prevention procedures in its sustainability report. The company reiterated its zero-tolerance policy towards child labour and requirement for suppliers to pledge not to deploy child labour. We expressed we would like General Motors to audit their suppliers as we do not feel that a pledge carries sufficient accountability to ensure the protection and general welfare of mining workers. We explained the rationale behind voting against the shareholder resolution but highlighted our expectation for General Motors to address and improve its quality of reporting on the matter in the sustainability report and demonstrate why the company should be best in class in the industry.

The company committed to reporting comprehensively on supplier auditing and wider efforts to combat child labour in its sustainability report. They emphasised their lack of hesitation to terminate any relationships where there are indications suppliers are not complying.

HENNES & MAURITZ (H&M) is a retailer of clothing, accessories, footwear, cosmetics, and home textiles.

Meeting with Nils Vinge (Head of Investor Relations), Henrik Lundin (Head of Corporate Governance), Adam Karlsson (Group Chief Financial Officer)

Issues: **Governance – board structure, business practices**

We met with H&M representatives to explain why we voted against the re-election of two directors on the Board and to ask whether the board has a plan in place to refresh the Audit Committee. As reflected in our vote at the most recent annual general meeting (AGM), as well as at previous AGMs, we take the view that both Mr Dahlvig and Mr Sievert are not independent. Both Directors have served on the board for 12 years and Mr Sievert has links to the family that controls the majority of H&M shares. We consider both these factors to impair the Directors' ability to serve as independent counters to executive management, and therefore do not think they should serve on the Audit Committee. We believe that the Audit Committee needs to be strong to challenge executives, especially given the family ownership structure.

We explained our view on the independent status of these directors and signalled our intent to write a letter to the Board expressing our concerns. The company explained, in line with Swedish regulations, both Directors meet the criteria for independence and are defined as such, reiterating that H&M's position on this would not change.

While we are cognisant of the differences in corporate governance practices in the UK and Sweden and realise we are unlikely to affect change when it comes to different definitions of independence, we intend to engage further with the Board and continue to encourage a refresh of the audit committee.

Finally, we discussed the policies H&M have in place to address possible conflicts of interest between the majority family shareholder and other shareholders, especially given the composition of the board. We were reassured that the publicly available code of ethics was explicitly a part of the Board's order of procedure and any market abuse regulation was taken very seriously.

KEYENCE

KEYENCE is a world leading manufacturer of industrial automation and inspection equipment.

Meeting with Mr. Yosuke Sekita (Assistant Manager, Corporate Planning & Coordination Department)

Issues: Governance – board structure, business practices

A telephone call with management touching on corporate governance. We have been impressed by Keyence's progress and commitment to improving its corporate governance and took the opportunity to give positive feedback on changes that have been made over the last twelve months and to provide constructive suggestions on further areas to improve.

While the corporate governance code in Japan requires a minimum of one third of directors serving on the Board of 'prime' listed companies be independent, we encouraged the company to move towards a majority independent Board. We explained this request is in line with best practice and the leading large companies in Japan. Keyence noted it has received numerous similar comments and has taken them into account.

We also discussed diversity on the Board, given there is only one female director. The Board lacks diversity beyond the low female ratio, with most directors coming from an engineering background. Keyence explained if there is a chance for someone to add value to the Board and improve the generation of shareholder value they would be considered as a candidate.

Finally, we noted our appreciation to Keyence for offering regular meetings with shareholders in an effort to improve transparency and shareholder communication. Over the last few years, we have encouraged the company to release materials for annual general meetings in English and with more than a few days' notice. This year, both of our requests were fulfilled which we believe to be a good sign for the direction of travel for the future of our engagements with Keyence.

PORTMEIRION®

PORTMEIRION is a ceramics manufacturer selling a range of tableware, bakeware, kitchenware and giftware.

Meeting with Mike Raybould (CEO)

Issues: **Governance – remuneration**

We spoke to Portmeirion's CEO to voice our concerns over the decision to pay a bonus to senior management as well as to declare a dividend to shareholders when funds could have been put towards repaying the support received by the government in the form of furlough and business rates relief.

Mr Raybould explained the company has no intention, nor obligation to repay any government support as the money it received was a grant and there were no conditions attached to the funds. Mr Raybould also pointed out that Portmeirion did not benefit from the coronavirus pandemic and the funds received from government furlough schemes enabled the company to retain numerous employees who would have otherwise been at risk of redundancy. We asked whether the support received was material in determining whether a bonus to management should be paid but the company suggested the amount was immaterial to performance and therefore was not a factor when deciding to pay a bonus.

Portmeirion recently declared that they would be paying shareholders a dividend amounting to £1.8 million. We questioned whether this was prudent given the current economic outlook and from a reputational standpoint, with the company having received government support. Mr Raybould asserted that Portmeirion felt that rewarding shareholders was an appropriate course of action due to the company beating earnings expectations at the end of 2021 and the fact shareholders contributed to an equity raise in 2020.

We were not wholly satisfied by the company's answers to our concerns, although we do see merit in the argument that the amount received was not material but allowed the company to avoid laying off staff. We asked whether Portmeirion anticipates any reputational repercussions of not repaying government support while paying both an executive bonus and a dividend to shareholders. Mr Rayboult maintained the company's actions are consistent with its peer group and therefore does not believe there will be any repercussions.

We felt refusing to repay government support but paying management a bonus and shareholders a dividend was not a satisfactory outcome, and as such, we decided to abstain from the respective votes and intend to engage with the board further.

SHELL is a global integrated energy producer with operations in oil and gas, refining, marketing and trading. The company is actively moving forward in the energy transition with a focus on EV charging and, more recently, upstream renewable power generation (offshore wind and solar) and biofuels.

Meeting with Sinead Gorman (CFO)

Issues: Governance – strategy and capital structure

Shell invited Ruffer to meet with the newly appointed Chief Financial Officer, Sinead Gorman, to discuss strategy and recent results as a part of a wider group meeting. The key topics of discussion were Shell's capital programme, and its shareholder returns framework.

On the capital programme, the meeting focused on debating whether Shell's capital expenditure level was appropriate, and whether the split across upstream, growth, and transition spending was the right one. Shell have made it clear there is no flexibility within spending plans unless there is a major macroeconomic shock and the amount has been set as a minimum amount. We would prefer Shell to retain its stated level of spending and avoid expanding the definition of energy transition spending within the growth pillar, especially given the current share price level. Ms Gorman explained that while the company would not explicitly commit to capping expenditure, our concerns were considered. We were not completely satisfied with the coherence of Shell's energy transition spending plan, nor its consistency with the company's strengths and will be monitoring the company's response to investors' concerns over the coming quarters.

On shareholder returns, all investors at the group meeting voiced their concerns that Shell's share price did not reflect the company's profitability prospects. The CFO was receptive and explored avenues to deliver supplementary returns – the group was very clear that dividends are preferred. Considering the significant rise in oil markets, partially driven by the Russia-Ukraine conflict, Shell will have high capacity to distribute significantly more cash to shareholders.

We have long supported Shell's differentiated approach to the energy transition by targeting electric vehicle charging, but the company has recently announced a move into the commoditised renewable power space, mainly solar and offshore wind energy. We anticipate challenges in finding genuine differentiation in this area and will monitor the company's progress closely.

UNIBAIL-RODAMCO-WESTFIELD

UNIBAIL-RODAMCO-WESTFIELD (URW) is a French commercial real estate company with a portfolio consisting of retail property, office buildings and convention centres throughout Europe and North America

Meeting with David Zeitoun (Group General Counsel), Amandine Cogneville (Group Director of Corporate & Securities Law), Séverine Kerjean (Supervisory Board Secretary), Maarten Otte (Group Director of Investor Relations), Cyrille Vanoye (Group Director of Compensation & Benefits), Clément Jeannin (Group Director of CSR)

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

URW contacted Ruffer to discuss the resolutions to be put forward to shareholders at the upcoming annual general meeting. The proposals cover three areas: re-election or election of supervisory Board members, proposed changes to executive pay, and approvals related to share issuance and buybacks. During the meeting we also briefly discussed the companies' Better Places 2030 Corporate Social Responsibility (CSR) strategy.

It is common practice for companies in France to have a two tier board structure consisting of a Management Board and a Supervisory Board, with the latter serving as a majority independent, non-executive Board of Directors. With respect to the Management Board, the company highlighted the appointment of Mr Montcouquiol as Chief Resources & Sustainability Officer holding organisational responsibility for human resources, information technology and CSR. On the Supervisory Board, the company proposed the re-election of three directors and the election of a new director, who will also be appointed as a non-independent member of the audit committee.

We asked about the overall diversity of skills in the Board's composition and expressed some caution in diverging from an independent audit committee. The company said, given the term of appointment for Supervisory Board members is three years, the board skills matrix is reviewed annually against the three year plan for the business and individuals are sought to fill gaps in board skills. Hence, the proposed election of Mr Dessolain who has executive-level knowledge and experience within European real estate management. He will also be appointed as a non-independent member of the Audit Committee. We also raised concerns that two of the candidates up for re-election sit on more than four other boards, and therefore may not be able to offer their full attention to URW. The company provided reassurance, given their 100% attendance rate in 2021, and their commitment to step down from other roles and give adequate focus on URW during a key transformation period. We found it useful to gain clarity on the company's director succession planning and to understand the board skills matrix and the need to balance continuity and experience with additional skills.

We discussed the revised remuneration policy, developed in light of the appointment of a new CEO in January 2021, feedback from investors and other stakeholders, and the need to reduce debt levels. The company explained the overall amount paid to the CEO had been reduced and the split of incentives between the short and long term had been tilted towards the latter. In both cases, performance metrics include financial metrics, CSR (or ESG) quantitative metrics, and, in the short term, individual objectives. The chosen CSR metrics include greenhouse gas reduction targets and gender parity objectives. We asked why the gender parity metric extended only to the executive population, rather than the entire business. The company explained, at company level the gender ratio is 53% female: 47% male but this statistic worsens at senior level, hence the focus on senior leadership. We are satisfied this trend is going in the right direction. We are broadly happy with the remuneration policy as it strikes a good balance between being a good corporate citizen and aligning the management team with shareholder outcomes.

We discussed the provisions related to share buybacks and share issuance. On buybacks, we asked whether capital would be allocated to reduce debt or repurchase shares. The company confirmed, at least in the short term, capital would be used to reduce net debt. On share issuance, URW explained that the purpose of additional shares being issued was mainly to retain and motivate junior staff through sharing in company performance. The company also highlighted that the dilutive effect was minimal.

In closing, we briefly discussed the URW Better Places 2030 Strategy. This strategy links stakeholder outcomes to performance metrics in executive pay and, is the umbrella for the company's sustainability program. It covers Spaces (mainly around energy efficiency), Communities (creating social value) and Together (which goes to women in leadership and tying employee performance to CSR outcomes).

We felt this was a productive engagement, and we are grateful the company took the time to provide technical definitions of executive pay metrics. We learned more about URW as an organisation and feel confident that management and the Board are aligned to deliver shareholder value even in a challenging macro environment.

ESG DATA PROVIDER: Market leading third party ESG data provider, including proprietary climate risk metrics

Two meetings held with physical risk and technology opportunity analysts

Issues: Environmental – climate change, environmental reporting

We held two workshops with the relevant teams from our ESG data provider to clarify the specific elements of their climate risk methodology that had been flagged by our in-house analysis. More detail on this important ongoing engagement can be found in our engagement in focus piece.

Our first meeting focused on the physical risk component of the provider's methodology. We raised the case study of Currys, a portfolio holding, to explore the methodology's gap fill approach when data is unavailable. We had noticed high physical risk outputs for the electrical retailer's business, arising from a warehouse in Ireland being at risk of flooding due to climate change. We felt the risk outputs appeared unrealistically high relative to the small perecentage of revenues generated by the warehouse, and the data provider explained the model could only locate less than ten business facilities and was splitting revenue roughly evenly between them. This contradicted our analysts' understanding that Currys operated in over 850 locations. In sum, the model was overstating the potential impact of flooding risk at the Irish location.

We pressed the data provider on two key themes related to this issue. The first was the governance on data quality checks. The provider said, due to the size of the universe of securities, its data quality checks focus on significant top level outliers. While acknowledging the challenge of individual security checks, we suggested a flagging system to highlight where data had been estimated and not checked. The second issue was the data provider's engagement with the underlying companies. We highlighted that a feedback mechanism could help to improve data quality over time. It would also make our engagement with companies more effective by allowing us to complete the loop of identifying a risk, engaging with the company to understand the risk and manage it where needed, and then empowering the company to work with the ESG data provider to properly reflect their improvement or the existing reality. We believe this would help to unlock value. The data provider acknowledged this and pointed to their existing issuer feedback mechanism for overall ESG ratings as a model for the future.

The second meeting focused on the technology opportunities methodology. We raised the example of Shell, which we previously flagged as its technology opportunity score having increased by almost four times in a quarter. The data provider explained the quality assurance flags only kick in for significant moves in certain headline metrics and so this was not checked at the time. Having reviewed the model updates, they believe the shift was due to a change in the company's reported data. We pushed for more transparency on the updated company data, since this has implications for our engagements on data reporting.

Improving the quality and granularity of the output and our ability to get a sense of the underlying drivers of the model is the key focus of our ongoing engagement with the data provider.

Cover image: A Tamworth pig, part of the rewilding project at Ken Hill, Norfolk, featured in The Ruffer Review 2022. Photography by Chris Frazer Smith chrisfrazersmith.com

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