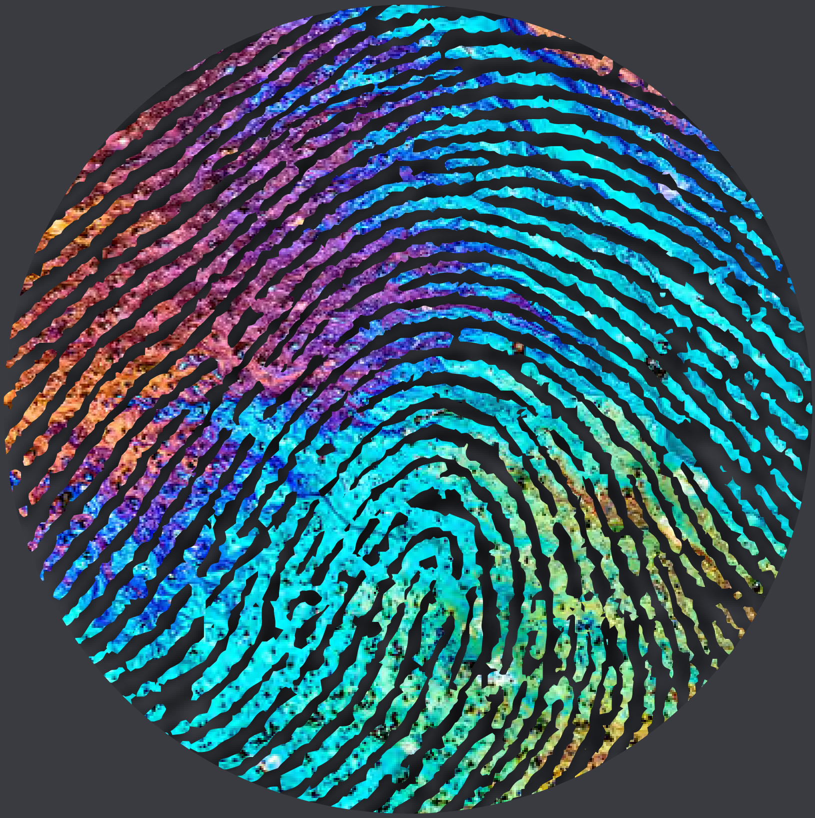
Responsible Investment Report



Q3 2022

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Responsible investment at Ruffer

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

To do that, and to generate good investment performance, we have always needed to analyse environmental, social and governance (ESG) issues. They represent both sources of value and investment risks. Fully incorporating these considerations into our investment approach forms an essential part of our responsibility to our clients.

Whether it's climate change or indigenous rights, executive pay or workforce safety, we believe our considered approach helps us make better investment decisions.

To the advantage of our clients' portfolios.
For the benefit of the companies we invest in.
And to the good of the environment and society.

HOW WE DO IT

INTEGRATION

ESG risks and opportunities are considered throughout our investment process

ENGAGEMENT

Directly engaging with companies is a key part of our investment process

VOTING

Equity investing comes with rights and responsibilities

We take this seriously

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

Overview of the quarter

THE MARKET VOLATILITY CONTINUED IN THE THIRD QUARTER. EQUITIES FELL IN AUGUST AND SEPTEMBER AS CENTRAL BANKS SIGNALLED THEIR DETERMINATION TO RAISE INTEREST RATES IN ORDER TO CURB STUBBORNLY HIGH INFLATION, WHILE GOVERNMENT BONDS LOST FURTHER VALUE TOO.

Perhaps more surprisingly, assets which are traditionally seen as offering some protection against inflation fared poorly over the quarter. These include inflation-linked bonds, oil and gold.

Talking of gold, the largest nugget discovered in Scotland for 400 years went on display in Glasgow in September. The nugget, weighing over 85 grams and worth some £50,000, was found by a man in a diving suit and snorkel lying face down in a Scottish stream.

Unfortunately, gold production is generally a far messier and more hazardous business, and we chose to focus our engagement efforts over the quarter on five gold mining companies. Specifically, we asked them to answer questions on climate change and water security provided by CDP (formerly, the Carbon Disclosure Project). The answers were illuminating, as you can read in this report.

Seeking fuller information on such questions should encourage these companies to improve their operational practices. It should also help us to avoid stocks with unacceptably elevated environmental risks, which can lead to significant price declines. This is a key element of our commitment to invest responsibly on your behalf, with a focus on preserving your capital.

Stewardship activities in brief

COMPANY	SUMMARY
HENNES & MAURITZ	After our meeting with the company last quarter, we escalated our concerns about the independence of the Audit Committee by sending a letter to the Board of Directors and requesting a meeting.
OCEANAGOLD	We had a meeting with OceanaGold's sustainability team to discuss the work they are doing, focusing on the company's strategy for decarbonising its operations and the ESG reporting standards it adheres to.
SCIENCE GROUP	We met with the Managing Director and President of Advisory Services to discuss Science Group's new sustainability initiative. We discussed the company's newly published Net Zero Playbook, a detailed plan for how companies across the supply chain can deliver on their Net Zero commitments.
TOKIO MARINE	We met with the CEO to discuss the rationale for our decision to vote against his and the Chairman of the Board's re-election – namely, the lack of progress on improving the board structure and the continued tenure of two directors we do not consider to be independent.
TOYOTA MOTOR	We held a meeting to explain how we voted at the most recent AGM as well as to encourage the company to ensure a majority of the members of its Board of Directors are independent. We also discussed the recent investigative report into Hino Motors, a subsidiary of Toyota, regarding falsified inspection data and how the company intends to reshape Hino's company culture.

Engagement in focus

CDP

"The Carbon Disclosure Project is to the future of business what the x-ray machine was to the then future of medicine. Without it, we would never see the inside of the patient's health."

Christiana Figueres, former Executive Secretary of the UN Framework Convention on Climate Change, 2010

CDP (formerly the Carbon Disclosure Project) was founded in 2000 as the first platform to use investor pressure to influence companies to disclose information on their environmental impact. The organisation's vision is for financial institutions to work together to encourage high impact companies to disclose on CDP's platform environmental information that is complete, comparable and aligned with the Taskforce on Climate-related Financial Disclosures (TCFD). The first disclosure request was sent in 2002 on behalf of 35 investors, with 245 companies disclosing their carbon emissions in response.

Under the tagline 'you can't manage what you can't measure', the initiative aims to provide environmental data that can be used to map trends, model emissions data and pinpoint best practice. Unlike other voluntary frameworks, such as the Global Reporting Initiative (GRI) and the Sustainable Accounting Standards Board (SASB), CDP specialises in only environmental concerns. The organisation's original focus was on collecting, aggregating and standardising carbon data, but its scope was expanded to include data on water security in 2009 and forests in 2011. These records inform investment research, products, indices and ESG ratings. CDP is not limited to companies; it also requests disclosure on environmental themes from cities, states and regions.

It is not a one-way street. Disclosing companies can also benefit by using CDP's reporting process to structure their commitment to the climate transition and environmental preservation by first analysing their existing footprint. CDP can help companies track and showcase their progress, identify risks and uncover opportunities related to the climate transition.

At Ruffer, we understand the value of clear and comparable information. We have been a signatory to CDP since 2015 and our research team uses CDP data, together with work from other research providers, to assess the investment value of companies' environmental impacts and strategies. The independent grading of companies offers a helpful benchmark for peer comparison across any sector.

While we have long engaged individually with companies to encourage data transparency disclosures, we decided last year to become more actively involved with CDP's non-disclosure campaign. This break-off initiative aims to selectively engage with companies in high impact sectors that have consistently failed to respond to CDP's information requests. Last year, we were lead investors for seven mining companies, three of which disclosed fully while two disclosed partly.

This year, we opted to be a co-signatory for four companies we hold: Northrop Grumman, Raisio, Dekel Agri-Vision and Kenmare Resources. We lent our support by under-signing the letters to these companies. We are pleased Northrop Grumman responded to this request and completed the climate change questionnaire.

We chose to focus our efforts on gold companies and led engagements with five mining companies we thought would be responsive. We sent letters to OceanaGold, AngloGold Ashanti, Centerra Gold, St Barbara and IAMGOLD requesting them to complete questionnaires on climate change and water security.

The subsequent engagements with and feedback from these companies have been illuminating. We can understand the frustrations they feel (especially those with smaller teams) when they have already made the data requested by CDP readily available on company websites and in their sustainability reports. Company reporting is evolving towards the consolidation of reporting standards, and we are starting to see standardised data presented through recognised frameworks such as the TCFD or the GRI. We firmly believe the disclosure of clear and comparable data is integral to making progress, but we do not believe it should be merely a box-ticking exercise. In 2018, CDP aligned its disclosure platform with the TCFD to ease the reporting burden for companies and ensure that material climate-related financial disclosures meet the recommendations of the TCFD and the needs of investors. If environmental data is already available in a recognised framework and can help investors to make more informed decisions, we understand that submitting the same data in a different format may not be the most efficient use of companies' resources.

We need to continue to assess our level of involvement. We intend to keep talking with CDP to ensure the objective of engagements with companies remains relevant and useful, so that both investors and companies can get the greatest benefit out of the organisation's data.

OceanaGold's Chief Executive Officer wrote back to us signalling the company's intent to complete a questionnaire on its climate change status. However, its sustainability team opted to submit an 'unscored' response. CDP's well-established rating system, as well as allowing for benchmarking against peers, also provides an incentive to disclose and improve environmental transparency. If companies submit their questionnaires before a set deadline, CDP assigns them a graded score for their response. That said, we were satisfied with OceanaGold's decision to provide unscored disclosures. The information will be available on CDP's investor dashboard so is still important for the campaign's mission.

We met with Greg Scanlan, OceanaGold's Head of Sustainability, to discuss the company's progress with its CDP disclosure. He highlighted that OceanaGold's sustainability report, aligned with the GRI framework, contained all the data CDP had requested. While committed to disclosing this year, he described the duplication of effort involved in entering this information onto the CDP platform as somewhat onerous, especially given the size and resources of the company's sustainability team. We expressed our appreciation that the team is focused on operational performance and, as OceanaGold plans to release a separate TCFD-aligned report, we are satisfied with the company's reporting on its sustainability efforts.

We wrote to AngloGold Ashanti asking the company to disclose information, specifically on its climate change efforts. The company has instead submitted a response to the CDP questionnaire on water security. It has reached out to set up a meeting with us in the coming weeks to discuss its CDP disclosure for this year.

Conversely, we asked St Barbara to disclose on water security, and the company has submitted the climate change questionnaire. We received a similar response to AngloGold Ashanti, but St Barbara also indicated that its sustainability team would look to complete the water security questionnaire.

Despite our engagement efforts, we have not received a response from either IAMGOLD or Centerra Gold. We will look to escalate this at our next meetings with the management of both companies.

HENNES & MAURITZ (H&M) sells clothing, accessories, footwear, cosmetics and home textiles

Letter to Karl-Johan Persson (Chairman of the Board) and the Board of Directors

Issues: Governance – board structure

We met with members of H&M's management last quarter to discuss the independence of two Board Directors and their position on the Audit Committee. We did not feel our concerns were adequately addressed and, as a result, we escalated our engagement by writing to the Board of Directors.

We reiterated our view that the Chair of the Audit Committee, Christian Sievert, is compromised by his position as CEO of the investment firm of which the founding family of H&M is a majority shareholder. He has also been a director for 12 years – a long tenure, which we believe can lead to a director becoming entrenched and therefore less independent. Anders Dahlvig, another member of the Audit Committee, has a similar tenure, so we believe a refresh is overdue.

We requested a meeting with the Board to discuss our concerns and made clear that we would consider alternative measures (including divestment) if we could not reach a conclusion.

OCEANAGOLD is a multinational gold producer operating in New Zealand, the Philippines and the United States of America

Meeting with Greg Scanlan (Acting EVP, Sustainability and Social Performance) and Brian Martin (Investor Relations)

Issues: Environmental – climate change, environmental reporting, low carbon transition

We met with OceanaGold's sustainability team to discuss the contents of this year's sustainability report, focusing on the company's strategy for decarbonising its operations. Mr Scanlan described 2021 as a formative year for OceanaGold in terms of sustainability, with the main focus on what can reasonably be committed to on interim Net Zero targets. The outcome was the announcement at the beginning of this year of an interim target of reducing Scope 1 and 2 emissions by 30% by 2030. We wanted to know how frequently emissions data would be reported, so that investors could monitor progress towards this target. OceanaGold will be publishing its emissions annually in the sustainability report, alongside emissions for the previous five periods to aid comparison. Furthermore, Mr Scanlan confirmed that performance incentives are in place to support the delivery of these climate targets.

We went on to discuss how OceanaGold intends to meet its emissions targets. The company is focusing on ways to decarbonise its electricity supply. We were encouraged to hear that progress has been made in both New Zealand and the Philippines on securing renewable energy from current suppliers. However, Mr Scanlan conceded it has not been as straightforward in the US. Though the company's current supplier is not able to provide a renewable option, OceanaGold is looking at solar and nuclear energy as a solution and expects the Biden administration's new legislation to be a catalyst for the availability of renewable energy in the region where OceanaGold operates.

Another area where decarbonisation efforts are being channelled is the company's mobile equipment fleet, and we were interested to understand how OceanaGold was adopting technologies to use energy more efficiently. Mr Scanlan explained a step change will be needed in the mining equipment space, but the company is monitoring new technology. This includes a recent trial in New Zealand that involved injecting hydrogen into diesel, resulting in a 15% reduction in emissions. The company is exploring the possibility of electric cranes, shuttles and escalators, but large equipment, such as haul trucks, has not yet been electrified. Mr Scanlan also pointed out that the fleet must be transitioned at the right time – it would not make financial sense to replace equipment in good condition for the sake of sustainability, which we agreed with. The New Zealand carbon tax was also mentioned as an important driver for the company to reduce its operational emissions, so replacing older equipment with, for example, biodiesel alternatives would be crucial.

While OceanaGold is comprehensively tackling its Scope 1 and 2 emissions, we wanted to know how it was progressing with measuring its Scope 3 emissions. The vast majority of emissions from the mining sector are categorised as Scope 1 and 2, and OceanaGold's Scope 3 emissions make up 20% of its overall emissions. That said, the company is going through its supply chain to identify large contributors to its Scope 3 emissions. Mr Scanlan highlighted that both upstream and downstream players are undergoing similar emission reduction exercises, and OceanaGold's Net Zero target for 2050, including Scope 3 emissions, should be achievable.

Finally, we discussed OceanaGold's plans to disclose to CDP, a campaign to drive environmental transparency. We had asked the company to complete questionnaires on its climate change and water practices, and OceanaGold has committed to submitting an unscored response. Mr Scanlan explained that he was focused on operational performance and the CDP process felt onerous, especially for a smaller company with less resource. Furthermore, the data required for the CDP disclosure is already published in OceanaGold's sustainability report, meaning a duplication of effort. We are understanding of OceanaGold's position and are satisfied with its plans to release a TCFD-aligned sustainability report next year once it has completed a climate risk assessment.

Mr Scanlan emphasised that OceanaGold is open to more discussions with investors to provide clarity on data and in turn to understand what we might want from the company in the way of sustainability and environmental reporting. We intend to maintain the dialogue with OceanaGold and monitor the company's progress towards its Net Zero targets.

science group

SCIENCE GROUP is an international science-led services and product development organisation

Meeting with Dan Edwards (Managing Director) and Michael Zeitlyn (President, Advisory Services)

Issues: Environmental, Governance – climate change, Net Zero low-carbon transition board structure, remuneration

Following the launch of Science Group's sustainability initiative, we discussed the company's efforts and enhanced focus in this space. In 2021, Science Group held a forum with the Chief Technology Officers of several of the world's largest companies (the 2021 CTO Forum), which operate across the supply chain. The forum's focus was on collaborating to create a map for how these large companies can successfully meet their Net Zero commitments. Given Science Group's expertise in the innovation and regulatory spaces, it is well placed to consult these companies on how to address greenhouse gas emissions reduction effectively.

Following the CTO Forum, Science Group published the Net Zero Playbook. As a key shareholder, we encourage Science Group's continued efforts in this space and fully support management in hosting further forums in the future. We also discussed with management why we voted with them at this year's AGM, in contrast to the ISS (our proxy voting provider) recommendation on two points. ISS recommended we vote against the acceptance of the firm's financial statements and statutory reports as it objects to Martyn Ratcliffe being Executive Chairman (in ISS's view combining both Chairman and CEO roles) and questions his receipt of a one-off payment during the year. Under Martyn Ratcliffe's leadership, Science Group has consistently created value for its long-term shareholders and has significantly outperformed the market; he is a key reason for our investment and has a significant shareholding of over 20% of the company. We believe Mr Ratcliffe is an outstanding operator and capital allocator and is critical to this business and his election to the board is extremely important. He does not participate in the firm's bonus plan, and the payment was one of the few discretionary payments made to him in over a decade at the company. The amount he received was minimal compared with the value he has created for shareholders, so we fully support his re-election.

The second issue we disagreed with ISS on was the approval of the firm's performance share plan. The recommendation to vote against was due to the overall dilution limit contained within the scheme rules. Mr Ratcliffe has a history of acquiring underperforming companies and turning them around, and it is important to attract and retain the right talent to execute the company's strategy. In this case, we believe the management is highly unlikely to issue shares which do not result in value creation for shareholders and hence we continue to fully support the current governance practices in place at Science Group.

TOKIO MARINE

TOKIO MARINE is a Japanese provider of property and casualty insurance

Meeting with Satoru Komiya (Chief Executive Officer) and Taizou Ishiguro (Investor Relations)

Issues: Governance – board structure

After engagement and voting against two outside directors due to their lack of independence over the last two years, we escalated our concerns by voting against the re-election of both the CEO and the Chairman of the Board of Directors at the 2022 AGM, and against the two directors we do not consider to be independent. We communicated our decision to Investor Relations before the vote and met with Komiya-san to express our concerns and voting rationale.

We explained that we did not share ISS's rationale for a vote against the re-election of Komiya-san and Chairman Tsuyoshi Nagano relating to the size of cross-shareholdings – in fact, we support the company's policy to reduce cross-shareholdings gradually each year. However, there has been a lack of progress on improving Tokio Marine's board structure, specifically the number of independent directors. Although one new independent director was added to the board in 2021, less than one third of the board can be considered truly independent.

We also reiterated the reasons behind our decision to vote against Akio Mimura and Shinya Katanozaka – both directors have retained prominent positions at companies considered to be cross-shareholdings of Tokio Marine, and Mimura-san has served as a director for 12 years. We deem that a director cannot be considered independent after such a long tenure.

Komiya-san is cognisant of the shift to a more independent board model, especially in Japanese companies, but reiterated that Tokio Marine considers Mimura-san and Katanozaka-san to be independent and added that it is difficult to find candidates who are not linked to cross-shareholdings, as Tokio Marine has so many. Komiya-san also explained that the company benefits from the balance brought by both short- and long-tenured directors. He explained the two directors do more beyond just board meetings – for example, they attend town halls and undergo training – and hoped that we as investors can see that both are excellent board members, rather than focusing on the formalities of board tenure.

We will continue to engage with Tokio Marine on the topic of board independence.

TOYOTA

TOYOTA MOTOR manufactures and sells motor vehicles and parts

Meeting with Yoshi Oba (Investor Relations)

Issues: Social, Governance – community relations, board structure, business practices

We met with Toyota after its 2022 AGM mainly to explain the rationale behind our votes for and against the re-election of certain board members. Japan requires that independent directors make up at least a third of a company's board. While best-in-class companies have majority independent boards, Toyota only has three outsiders out of nine directors. Given the company's reputation as a leader in the vehicle industry, more could be done to improve the board's independence. As a result, we voted against the re-election of both the Chairman and the President to hold them, as senior directors, accountable for governance failings, including the independence of the nomination and compensation committees. We suggested that we would prefer a majority independent board and would be very supportive of more female candidates for board positions.

Oba-san had heard similar concerns from other European investors, specifically concerning Sir Philip Craven and Teiko Kudo. Despite ISS deeming both directors not independent, we do not assess their affiliations to be material. We also took the opportunity to express our support for the appointment of a new statutory auditor, against ISS's recommendation, given our personal knowledge of the candidate.

We then discussed Hino Motors, a subsidiary of Toyota, and the emergence of fraudulent and falsified inspection data. Oba-san said a report was published after a special investigation uncovered fraud that has been ongoing since 2003. Oba-san conceded Toyota had not fulfilled its supervisory responsibility as the parent company of Hino Motors, and Toyota's CEO has since visited the department found to be at fault, meeting with both employees on the floor and the executive team. Oba-san explained that Toyota is committed to bring Hino's governance structure, which previously was not fully integrated, in line with its own. Hino Motors has what Oba-san described as a top-down culture, and the first step towards changing this culture is to encourage communication between the management team and employees. The company admitted it might take some time to change management's mindset. We asked whether the company has taken any steps to proactively review other subsidiaries or partner companies for any nasty surprises. Oba-san was understanding of our concerns and reassured us Toyota has reached out, but nothing has yet come to light. We asked about their methods of escalation if Toyota does not feel that change is underway. It would consider installing company executives at Hino Motors to lead the shift in mindset and could also increase ownership to exercise more control over the company. The situation is being monitored and Oba-san will update us regularly.

Finally, we discussed operational and supply chain disruptions, caused primarily by climate change and natural disasters, and how these risks are mitigated. In recent months, Toyota has experienced shutdowns due to water restrictions in China, as well as flooding in South Africa, so is very aware of the material impacts such disruptions can have on its supply chain. Oba-san explained that, through visualisation of the supply chain, the company can identify disruptions quickly and redirect parts and materials accordingly. Toyota identifies in advance where parts can be used as replacements in the event of disruption and has contingency plans to enable a smooth transition between diversified suppliers. Oba-san added that Japanese companies have been exposed to natural disasters in the past and so can share considerable know-how when opening factories in locations that could be exposed to similar events.

Overall, this was a very useful discussion on Toyota's lack of board independence, as well as a chance to learn about how the company is dealing with both physical and cultural risks within the business.

About Ruffer

OUR AIM IS TO DELIVER GOOD POSITIVE RETURNS – WHATEVER HAPPENS IN FINANCIAL MARKETS.

To invest well, we need to take on risk. With risk comes great responsibility. Our preoccupation is with not losing money, rather than charging headlong for growth. It's by putting safety first that we have made good money for our clients. Through boom and bust. For over 27 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value substantially.

We believe that investing responsibly will lead to better long-term outcomes for our clients.

Our decision to invest in companies is based on both fundamental and ESG analysis. As part of the investment process, our responsible investment team partners closely with the analysts in our research team to identify and evaluate the impacts a company's operations could have on the environment and society. Likewise, the risks associated with weak corporate governance practices are evaluated. To fulfil our duty to act as responsible stewards of our clients' assets, we use our judgement to determine when to engage and how to vote at shareholder meetings to best protect the economic interests of our clients, while remaining cognisant of the impact on all stakeholders. Engagement with the companies we invest in not only gives us an opportunity to deepen our understanding of the business, but also is an effective tool to achieve meaningful change.

OUR RESPONSIBLE INVESTMENT FRAMEWORK