Stewardship Report

FOR THE YEAR ENDING 31 DECEMBER 2023

About Ruffer

Ruffer manages investments for institutions, financial planners, pension plans, private clients and charities, in the UK and internationally.

Our aim is to deliver positive returns, whatever happens in financial markets.

To invest well, we need to take on risk.

With risk comes responsibility. Our preoccupation is with not losing money, rather than charging headlong for growth.

To that end, we focus on understanding the risks and opportunities in our portfolios – that includes risks posed by environmental, social and governance (ESG) factors and putting stewardship in action through engagement and proxy voting.

If we keep doing our job well, we will protect our clients' capital – and increase its real value.

This Stewardship Report satisfies the amended Shareholder Rights Directive (SRD II) requirement for Ruffer to report annually on the implementation of its shareholder engagement policy – Ruffer's Responsible Investment Policy – including a general description of voting behaviour, votes cast, an explanation of the most significant votes and the use of proxy advisors.

We are proud signatories and supporters of

For more on what we do and how we do it, please visit ruffer.co.uk

STEWARDSHIP REPORT

Foreword	4
Executive summary	5
Purpose and governance	8
Investment approach	29
Engagement	50
Exercising rights and responsibilities	66
Opinion pieces	84
Looking ahead	92
Appendix	95

Foreword

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

We believe that responsible investment – both the integration of ESG factors into investment and stewardship (engagement and proxy voting) themes and activities – is well aligned with, and contributes to delivering upon, this purpose.

We are pleased to retain our signatory status to the UK Stewardship Code for the third time. For this fourth report, we have restructured the content to respond more concisely to the principles laid down in the code. This revision will enable our clients and investors, and our regulators, to assess more easily our alignment with the code. The report seeks to articulate how Ruffer undertakes responsible investment in its financial products. It will also show Ruffer's commitment to stewardship activities for the purpose of protecting and enhancing value.

Throughout this report, we show how our approach aligns with the definition and spirit of stewardship within the code.

It was a year of consolidation.

After much preparatory work during 2022, we submitted our initial target disclosures to the Net Zero Asset Managers (NZAM) initiative in early 2023. The three targets set as part of NZAM are embedded in our due diligence process and are central to our engagement activities.

As well as Net Zero, Ruffer refreshed its governance processes relating to responsible investment and invested in an array of technology solutions to improve client and investor reporting, engagement tracking and due diligence oversight.

Ruffer as a firm has many priorities for 2024, including rebuilding the investment architecture to ensure we can manage our client and investor monies efficiently and effectively into the future. But the Financial Conduct Authority's (FCA) incoming FCA PS23/16: Sustainability Disclosure Requirements (SDR) investment labels regime means our focus on executing a pragmatic responsible investment strategy for the benefit of our clients and investors will continue.

CHRIS BACON
Chief Executive

Executive summary

OUR PRIORITIES FOR 2023

We continue to evolve and enhance our approach to responsible investment. In 2023, we targeted the following priorities

1. **DEEPENING** the integration of ESG factors into investment research and investment decision making
2. **EMBEDDING** our proprietary approach to climate risk and opportunity in the investment process and reporting progress on our NZAM commitments
3. **UPDATING** proxy voting guidelines to clarify our approach to shareholder resolutions and to help the investment team to vote with clarity, credibility and consistency
4. **IMPROVING** the rigour and effectiveness of how we plan, conduct and document engagement activities
5. **STRENGTHENING** data capture so we can better demonstrate the impact of our stewardship activities and ESG insights on investment decision making

REFLECTIONS AND ACHIEVEMENTS FROM 2023

1. We established a Responsible Investment Council (RIC) in early 2023 which comprises three partners of Ruffer LLP, drawn from across the business. The RIC was created to consider ad hoc responsible investment issues and activities where input or decisions are required from senior management.

2. Our proprietary approach to assessing climate risk and opportunity has developed in two ways.

   - In pure quantitative terms, we have developed resource use and productivity indicators combining financial and non-financial data into a standardised model which, together with other traditional factors, aims to integrate climate (and sustainability) indicators into security selection models.

   - In bottom-up or fundamental analysis of companies, we have a structured (though evolving) template of metrics and data points, from various sources, which allows us to quantify our views on the analysed company's willingness and ability to transition to Net Zero.

   We will report on Ruffer's progress in relation to its NZAM targets in the forthcoming Task Force on Climate-related Financial Disclosures (TCFD) report.

3. We updated our proxy voting guidelines with some core principles, aligning with our tagline of 'red flags, not red lines'. We accept there are some clear signals of good governance, such as majority board independence and pay aligned with performance. But, as a global investment manager investing in companies from early-stage, small market capitalisation miners to mature, large market cap technology names, we want to allow our investment teams to vote in what they perceive as the best interests of each company. However, if they instruct a vote differently to the proxy voting recommendation, they must have a thoughtful, considered and consistent rationale.

4. Improving the rigour of engagement activity documentation requires a technology investment and the professional resource available to update our proprietary systems to ensure they are robust, 'future-proofed' and meet client expectations. Whilst the technology project has been scoped, the build has been delayed pending the completion of other projects.
   In the interim, we have populated a spreadsheet with additional information (ready for upload once the database has been enhanced).
   We have also written notes to record each meeting's objective, discussion and next steps and have updated our client reporting to closely align with the same structure.

5. On processes, we engaged our internal audit function firstly to review the process and procedure for preparing prior stewardship reports and secondly to recommend necessary changes to reassure the Board and Executive Committee that future reports will meet regulatory requirements and reporting best practice.
   On technology, given the FCA requirements to prepare an entity-level TCFD report, we needed an automated process to consolidate unique products into a single pool of assets, removing double-counting and any product outside the Ruffer LLP envelope, to generate accurate entity-level and product-level climate and carbon metrics.
   Given methodology updates at our primary data provider (MSCI ESG Research) and the clearer requirements for climate and carbon-related data points and metrics set within the FCA regulation, we started re-building the workflow to not only calculate and publish the data and metrics, but export them in a template, reducing the potential for human error.

Whilst we are satisfied with what we achieved in 2023, there were a number of areas where we did not meet the objectives set out in our previous Stewardship Report. We outline our plans for 2024, which incorporate where we fell short, in the section 'Looking ahead'.

Purpose and governance

Principle 1: Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

PURPOSE OF RUFFER

Our aim is to deliver consistent positive returns – whatever happens in financial markets.

Preserving our clients' capital has been Ruffer's core purpose since it was founded in 1994. We define this purpose through our two investment objectives

- not to lose money in any 12 month period
- to generate returns meaningfully ahead of the return on cash

The business is committed to delivering investment performance that puts clients first. The spirit of service informs everything we do. To ensure the incentives of those working at Ruffer are aligned with our clients, the business is structured as a partnership, with partners from across all departments.

RUFFER'S CULTURE AND VALUES

"People at Ruffer take what we do seriously – but we try not to take ourselves too seriously." – Miranda Best, Deputy CEO

Ruffer has a focus on client service and preserving clients' capital. Operating in investment management, we seek to foster a culture of intellectual curiosity and diverse thinking. We also nurture a high-performing culture: whilst competitiveness is welcomed, we believe that the ability to remain humble, learn from mistakes and share knowledge and insights leads to better investment (and company) performance. Ultimately, we will be

judged on investment performance, which will fluctuate over time. That is why we continuously strive to maintain our investment philosophy, beliefs and strategy, to remain disciplined through the market cycle, to question our investment assumptions and positioning and to communicate clearly, consistently and as required by our clients and investors.

To that end, Ruffer has codified three core values

CARE: for our clients and each other

EXCELLENCE: keep raising high standards

COURAGE: to do the necessary, hard and unpopular things

RUFFER'S BUSINESS MODEL AND STRATEGY

Ruffer has a simple and intuitive business model: we offer a single investment strategy, but with multiple expressions.

Our single investment strategy is based on an absolute return, multi-asset class approach and is benchmark unaware.

By multiple expressions, we mean we offer a range of funds, plus some variants - eg for charities. But all products follow a similar macro asset allocation process coupled with fundamental security selection.

Ruffer provides investment management services for different institutions, including pension funds, family offices, wealth managers, local governments, corporations, investment companies and insurance companies.

Our investment process is different to most. It is designed to protect and then grow the value of our investors' portfolios – avoiding large losses and harnessing the power of compounding over time.

It's by putting safety first that we have made good money for our investors, through boom and bust, since our inception in 1994.

But we realise our approach may not suit everyone.

WHY RUFFER?

1. **DELIBERATELY DIFFERENT IN PHILOSOPHY, PERFORMANCE AND PERSPECTIVE** – we start by focusing on keeping clients safe.
2. **A CONSISTENT, REPEATABLE PROCESS** – Ruffer's approach has remained unchanged since 1994, and all the firm's resource is focused on achieving one outcome.
3. **GENUINE DIVERSIFICATION AND PROTECTION** – we have a proven track record since 1994, with a low correlation to equities and other asset classes.

WHY NOT RUFFER?

1. **STEADY RETURNS** – we aim to deliver consistent positive returns, but this could look dull at times.
2. **NO MENU OF PRODUCTS** – we focus on delivering one philosophy and strategy well.
3. **WE MAKE MISTAKES** – whilst we strive to protect and then grow the value of our investors' portfolios, our past performance is not a guide to future performance.

AND WHERE MAY RUFFER FIT?

We have a distinctive investment style, offering an alternative to volatile equity investment and to traditional active fund management. Our approach is sometimes categorised as diversified growth or dynamic asset allocation.

Typically, clients use Ruffer in one of three ways

1. As the manager for some, or all, of their assets
2. As part of their allocation to uncorrelated alternative assets
3. As part of the growth assets within a strategic asset allocation

SUBSTANTIATED ABILITY

Over 29 years, we have preserved our clients' capital through some very difficult markets – including the crashes of 2000 to 2003, 2007 to 2009 and early 2020.

This track record has come with a low correlation to conventional investment strategies, offering clients a different pattern of returns.

That means the markets sometimes race ahead of us. But we believe it is only by preserving capital in difficult times that we can hope to achieve good returns over the long term.

Principle 2: Signatories' governance, resources and incentives support stewardship.

WHAT IS STEWARDSHIP?

At Ruffer, we endorse the Financial Reporting Council's definition of stewardship as "the responsible allocation, management and oversight of capital to create long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment or society."

WHY STEWARDSHIP MATTERS AT RUFFER?

We believe stewardship activities can lead to lasting and meaningful change, resulting in better long-term outcomes for our clients and other stakeholders.

We are committed to being good stewards of our clients' assets. To that end, ESG issues are integrated into our investment process. This analysis guides our engagement activities and informs active proxy voting at company meetings.

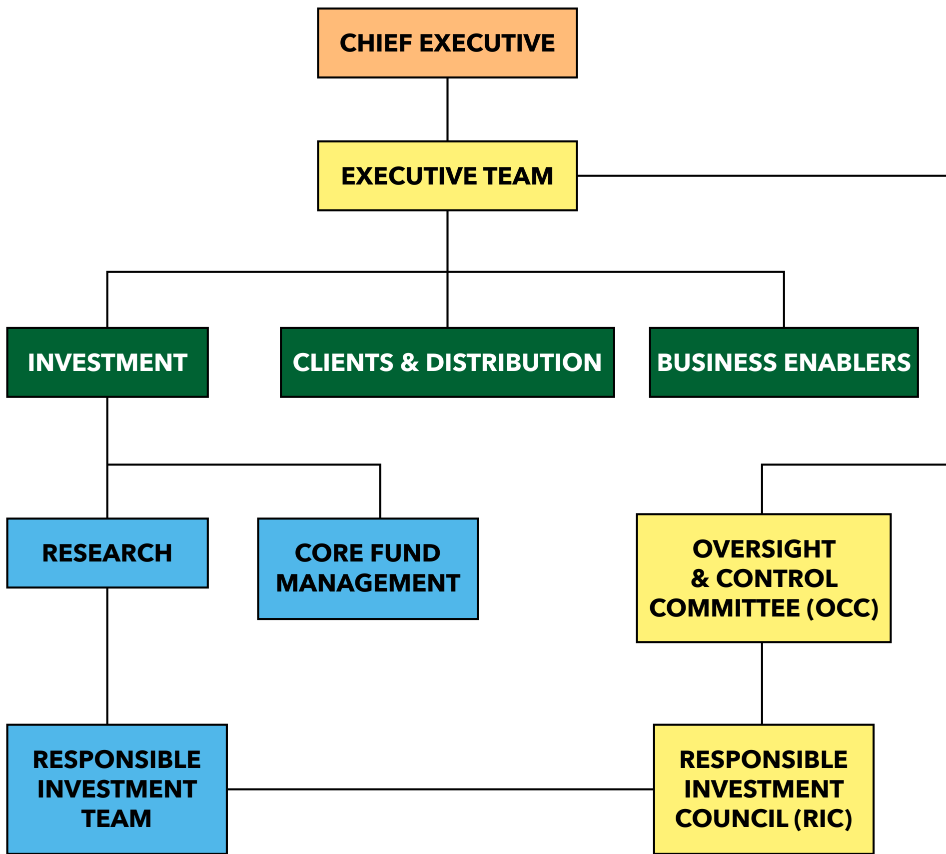
Whether it is climate change or indigenous rights, diversity, equity and inclusion or workforce safety, we believe our considered approach helps us make better investment decisions.

In our view, this approach will lead to better long-term performance for our clients, whilst also benefiting the companies we invest in, our environment and society.

HOW RUFFER SUPPORTS EFFECTIVE STEWARDSHIP

Stewardship activities are conducted by the Responsible Investment and Investment teams.

Ruffer has a collaborative research process, with ESG integration forming a part of our fundamental analysis. Integration is a component of our overall RI process. We have an in-house Research team, which includes the Responsible Investment team. Stewardship activities are sometimes also conducted by Responsible Investment specialists (RI specialists) from our client facing teams, who partner with members of the investment teams.


CHIEF EXECUTIVE
EXECUTIVE TEAM
INVESTMENT
CLIENTS & DISTRIBUTION
BUSINESS ENABLERS
RESEARCH
CORE FUND MANAGEMENT
OVERSIGHT & CONTROL COMMITTEE (OCC)
RESPONSIBLE INVESTMENT TEAM
RESPONSIBLE INVESTMENT COUNCIL (RIC)

GOVERNANCE AND OVERSIGHT

The Oversight & Control Committee (OCC), which is a sub-committee of the Executive Committee, attends to matters across the business, including those related to RI. For example, amendments or changes to the RI Policy will be considered and approved by the OCC. It is also the recipient of summary risk reports on NZAM-related targets.

The RIC provides a formal body to discuss, consider and decide upon issues which are more substantive to either Ruffer LLP or Ruffer funds. Although not used during 2023 for this purpose, the RI team may call upon the RIC for a decision should we choose to escalate an engagement or proxy voting resolution. Where we did seek input from the RIC in 2023 was to decide upon whether Ruffer should, or should not, sign up to collaborative engagements.

QUARTERLY SCENARIO MEETING

Every quarter, a member of the RI team attends this management meeting. The Co-CIOs, Head of Investment Strategy and members of the Risk team discuss various elements of the risk report. The RI team presents on climate risk, covering the estimated carbon emissions footprint of the portfolio and climate value at risk metrics. The meeting receives an update on progress towards NZAM targets, outlining engagement activity and the status of transition plan analysis. The update highlights large contributors to financed emissions and provides a snapshot of our transition metrics, used to assess companies' willingness and ability to address climate risk.

STEWARDSHIP RESOURCES

The Responsible Investment team is functionally located within the broader Research team. The Research function includes investment strategy (macro) and equity, sovereign bond, commodities and derivatives investment research. The RI team, and Research more broadly, is reliant upon Ruffer's Clients and Distribution and Business Enablers teams. The former provides important feedback and insights into the issues important to our clients and investors. The Business Enablers include Compliance, Legal, Audit, Technology and Risk Management. These teams assist in various ways, including meeting our legal and regulatory requirements and providing information technology solutions and compliance oversight of RI communications.

Research analysts have primary responsibility for considering ESG risks and opportunities, supported by the Responsible Investment team and specialists. For the most material or potentially contentious investments, we perform enhanced ESG due diligence analysis.

WHAT IS A RESPONSIBLE INVESTMENT SPECIALIST?

An RI specialist is someone who has a particular interest, knowledge set or skills in ESG topics, alongside their core function at Ruffer. The role helps Ruffer to deliver its RI strategy, whilst providing another avenue for our people to build additional skills and gain experience. RI specialists have two principal responsibilities

1. To support Research analysts with additional ESG analyses
2. To support client-facing staff in building knowledge and confidence to discuss ESG issues with clients and investors

It is a voluntary role, with a formal expression of interest process and each specialist's contribution recognised in the annual performance review. We provide an in-house training programme supplemented by external education resources to establish, maintain and grow ESG knowledge, skills and experience.

WHAT IS THE OUTCOME OF OUR ACTIVITIES?

During 2023, we

- Updated and refined our Responsible Investment Policy (previously called the Stewardship and Responsible Investment Policy)
- Re-built our internal RI intranet page to improve communication of key engagement examples and other activities and gave quarterly in-person updates on RI activities to educate and inform (primarily) our client facing teams for meetings with clients and investors or for intermediated requests
- Continuously recorded and tracked company (and other) engagements
- Enhanced our quarterly Responsible Investment Reports, which are available at ruffer.co.uk/responsible-investing
- Re-wrote our internal proxy voting guidelines
- Enhanced our technological capabilities to strengthen our RI due diligence process

Principle 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

OUR APPROACH TO ACTUAL OR POTENTIAL CONFLICTS OF INTEREST

Ruffer's policy is to act in the best interests of all our clients. Enacting this policy effectively is critical for two main reasons: to support the health and success of the financial system; and to ensure our clients and investors are treated fairly.

Ruffer is a Limited Liability Partnership (LLP). This structure aligns our interests with those of our clients. Our staff share in Ruffer's profitability, so they are interested in nurturing client relationships through ongoing communication and by delivering upon our investment objectives. Where conflicts of interest on stewardship exist between Ruffer and a particular client or our wider client base, it is Ruffer's policy to act in the best interests of all our clients.

We consider the risk of a conflict of interest to be minimised because all our products are managed to one active approach. We don't offer a range of public and private market or passively and actively managed products.

Ruffer takes all appropriate steps to maintain and operate effective organisational and administrative arrangements to identify and prevent or manage relevant conflicts between a client and Ruffer or between one client and another. To further reduce any potential conflicts of interest, we clearly document the justifications and decision-making process on every item. Where a potential conflict of interest is identified, the interests of the client or client fund is put before the interests of Ruffer, its subsidiaries and its staff.

Where the organisational or administrative arrangements referred to above are insufficient to ensure, with reasonable confidence, that risk of damage to the interests of a fund or client are prevented, Ruffer's senior management would be promptly informed of the fact, so that any necessary decision or action can be taken to ensure that Ruffer acts at all times in the best interests of its clients and funds.

WHERE CAN EMPLOYEES FIND INFORMATION ABOUT CONFLICTS OF INTEREST?

The Ruffer Compliance Manual is available to all employees on the firm's intranet. We also have a whistleblowing policy and an employee assistance programme. The policy provides details of the whistleblowing champion for the Ruffer Group, an independent organisation and a UK charity for whistleblowing and the relevant contacts at both the FCA and the US Securities and Exchange Commission (SEC).

HOW DO WE GATHER CONFLICT OF INTEREST RELATED INFORMATION?

During 2023, we integrated MyComplianceOffice (MCO) – a cloud-based software tool – into the business. MCO is a leading compliance management platform for financial services firms. It streamlines approval processes and gives easy access to all previously submitted conflicts data. It also enables more effective management and oversight across the firm by providing automated workflows, improved efficiency, better real time data and improved information and reporting functionality.

Ruffer employees are required to disclose any external activities, such as trusteeships and directorships, and financial holdings annually. For any trading on personal accounts, we have a formalised approval process (conducted as needed) and regular issuance of stop trading lists. All order confirmations must be sent to Compliance.

POTENTIAL CONFLICTS OF INTEREST

We have detailed below the conflicts that might arise during the management of a client's portfolio and how we would try to mitigate or manage the conflict.

<table>
<tr><th>Potential conflicts</th><th>How we would manage the conflict</th></tr>
<tr><td>Ruffer acts as investment manager for another client or clients with interests in investments in relation to which Ruffer provides investment advice or may effect transactions for the portfolio.</td><td rowspan="4">Ruffer will always take appropriate steps to ensure fair treatment for the client by disregarding any interest it may have when advising or dealing on the client's behalf, and by maintaining procedures preventing members of staff from gaining an unfair advantage from the holding of, advice in relation to, or dealing in investments on behalf of its clients.</td></tr>
<tr><td>Ruffer itself, or Ruffer staff members, may have an interest in investments in which Ruffer may provide investment advice or effect transactions for the portfolio.</td></tr>
<tr><td>The portfolio contains securities where a Ruffer staff member is a director or other officer of the issuer.</td></tr>
<tr><td>The transaction or investment advice is in relation to a collective investment scheme or investment trust whose assets are managed by Ruffer or one of its subsidiaries.</td></tr>
</table>

RECORDING OF CONFLICTS

To help identify and manage any potential conflicts of interest, all those identified by Ruffer are documented centrally in the Conflicts of Interest Matrix (COI Matrix), along with the arrangements in place to manage these and any other conflicts. The COI Matrix contains the generic potential conflict scenarios and cross references these to the relevant Ruffer policies and procedures instituted to prevent or manage them. The matrix makes clear which conflicts and potential conflicts apply to all Ruffer entities and which to select Ruffer entities. The COI Matrix is prepared and maintained by Compliance, with input from relevant business areas, including the Executive Committee and Ruffer LLP subsidiaries.

DISCLOSURE OF CONFLICTS

If our arrangements to prevent conflicts of interest from adversely affecting the interests of a client or fund are inadequate, Ruffer is obliged to clearly disclose the general nature or sources of conflicts of interest, and the steps we take to mitigate them, to a client before undertaking any business for them.

IDENTIFYING AND MANAGING CONFLICTS OF INTEREST

To minimise the risk of conflicts of interest arising (including through stewardship activities), Ruffer has

1. An inside information policy allowing a Relevant Person to inform Compliance of any inside information they may hold on a company, which is added to the Stop List until the information is in the public domain
2. Divisions and legal entities operating with appropriate independence from one another
3. Supervisory arrangements which provide for separate supervision of staff where necessary for the fair management of conflicts of interest
4. Appropriate controls to identify and manage board memberships and outside business interests of Relevant Persons
5. A remuneration policy so that remuneration and the prudent management of clients' interests are aligned
6. Appropriate inter- and intra-divisional escalation processes where a conflict of interest has been identified or may be identified

7. A requirement for any delegates of Ruffer providing services in the context of the management of alternative investment fund (AIF) portfolios to notify Ruffer of any circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of that AIF or its investors
8. Adequate records of where a conflict of interest has been identified
9. Where necessary, Relevant Persons subjected to personal account transaction rules
10. Periodic reviews of the adequacy of Ruffer's systems and controls for conflicts of interest

OUTCOME

At the time of writing, Ruffer LLP confirms there were no examples of actual or perceived conflicts of interest related to responsible investment for the reporting period.

Principle 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

Our engagement efforts in 2023 continued to focus on similar themes to 2022.

CONTEXT

In 2023, our engagements covered themes including energy transition, corporate governance, nature and biodiversity, human rights and capital allocation. ESG issues (beyond those we have focused on) often arise in the normal course of meetings and are considered as part of the investment case but not formally written into client reporting.

Although we examine the risks and opportunities of each company separately, every year there are themes – often reflecting industry trends – that influence our voting and engagement activities. These themes may reflect market-wide and systemic risks which are potentially material for investee companies. These risks are identified through our macroeconomic analysis and ongoing dialogue, as well as by bottom-up or fundamental analysis. As responsible stewards of our clients' assets, we respond to these risks to help promote well-functioning financial markets. Our response will differ depending on the risk identified and whether we decide an independent or a collaborative approach is likely to be most effective.

More details on our activities in response to these themes, the effectiveness of our activities and how we may have incorporated these issues into our investment decision-making can be found within our case studies and engagement summary section.

SYSTEMIC RISKS

HOW WE CONSIDER CLIMATE-RELATED RISKS AND OPPORTUNITIES

At Ruffer, climate change is an ongoing theme in our voting, engagement and investment activities. We believe climate risk presents both a threat to, and an opportunity for, our clients' capital and income. Emerging science, company responses and disruptive technologies must all be considered in any investment strategy. We think achieving meaningful greenhouse gas emissions reductions in the most cost-efficient way will require new partnerships to be forged not only within, but between, industries.

We believe climate risk cannot be divested away; it must be managed like other investment risks. Climate risk manifests in two broad categories: physical (acute or chronic weather related); and transition or disruption (policy, regulatory or legal). A simple exclusion approach may lower a portfolio's carbon footprint but may neither lead to a real world reduction in anthropogenic carbon emissions nor protect the portfolio from climate related shocks. We believe actively managing climate risks and opportunities is the best way to protect and enhance our clients' portfolios. Since nearly every company has exposure to climate change, ESG factors are integrated into security selection and ongoing portfolio construction. There will be investment opportunities as companies transition to lower carbon footprints and as new investable business models disrupt the status quo.

HOW WE CONSIDER RISKS RELATED TO BUSINESS PRACTICES

Business practices are something of an esoteric concept. Unfair business practices encompass fraud, misrepresentation and oppressive or unconscionable acts or practices by businesses, often against consumers. Fair business practices may include the absence of these behaviours as well as positive signals such as culture, policies, being a signatory to codes and standards including the United Nations Global Compact (UNGC), treatment of stakeholders, transparent lobbying activities, management quality and governance oversight. We consider these risks as part of our analysis, using MSCI ESG Research, media reporting and third party research. Reputational damage, business disruption through staff turnover (particularly the CEO and Chair), loss of key revenue streams, regulatory fines and rectification costs are assessed case by case.

HOW WE CONSIDER RISKS POSED BY STRATEGY AND CAPITAL ALLOCATION

The International Corporate Governance Network says capital allocation can be defined as "the process of distributing a company's financial resources with a purpose of enhancing the firm's long term financial stability and value creation – and providing fair returns to providers of risk capital." Capital allocation is therefore the sources (debt and equity) and uses (such as dividends, reinvestment or debt repayments) of capital. In the Ruffer Review 2023, we reviewed *The Outsiders*, by William N Thorndike, Jr, who argues "the hallmark of exceptional company leadership is the delivery of long-term returns for shareholders, and this can only come from quality capital allocation."

Capital allocation is important because it determines whether a company is creating or destroying shareholder value. Shareholder value, in this context, is measured by the spread between the rate of return (measured as return on invested capital or return on average capital employed) and the cost of capital. It is tempting to look backwards and simply extrapolate forwards. This would be a mistake. Ruffer wants to see value created over the long term and is prepared to accept short-term fluctuations, but we must have conviction that what management teams have achieved in the past can be replicated in the future. Fundamentally, strategy and capital allocation are interwoven. Collectively, they are a measure of board and management effectiveness, which is why it is a stewardship issue.

At Ruffer, we look at historical return on capital and analyse the likely future return on capital as part of fundamental security selection. We make a quantitative and qualitative judgement about management and the board, regarding cohesion between strategy and capital allocation. Where shareholder value has been destroyed in the past, we look for a catalyst which may change the outlook or for an engagement opportunity which may result in attractive returns. Where companies have created shareholder value over time, we seek to understand the durability of those returns in the future. In all cases, we seek to assess management skill and board oversight in steering the company to create shareholder value, as this links to delivering our investment objective.

HOW WE CONSIDER RISKS RELATED TO HUMAN AND LABOUR RIGHTS

The United Nations defines human rights as "inherent to all human beings, regardless of race, sex, nationality, ethnicity, language, religion, or any other status. Human rights include the right to life and liberty, freedom from slavery and torture, freedom of opinion and expression, the right to work and education, and many more. Everyone is entitled to these rights, without discrimination." The Universal Declaration of Human Rights is the underpinning of international human rights law. Similarly, labour rights are the domain of the United Nations International Labour Organization (ILO). It promotes standards on workers' rights such as the freedom

to associate, collective bargaining, equality of opportunity and treatment and the abolition of forced labour.

Whilst these standards and declarations are globally recognised and agreed in the form of treaties, sovereign nations need to formally adopt (or ratify) them if they are to become legally enforceable. Furthermore, domestic law and regulations, systems of governance and enforcement all need to work cohesively to implement effective human and labour rights. We note potential regulation such as the European Union Corporate Sustainability Due Diligence Directive (CSDDD) "sets obligations for companies to mitigate their negative impact on human rights and the environment such as child labour, slavery, labour exploitation, pollution, deforestation, excessive water consumption or damage to ecosystems" which could materially change corporations' responses.

These risks and opportunities take many different forms: forced or child labour, modern slavery, fair pay and living wage, equal opportunity and diversity, equity and inclusion. All may be grouped under the broad heading of human capital – that is, how companies and other employers treat their employees so that value can be preserved or created. Even after the advent of artificial intelligence, human capital remains critical to value creation. But the way human capital is managed may in some instances contravene what we consider the minimum acceptable level of human and labour rights.

Ruffer's due diligence process on human and labour rights relies upon MSCI ESG Research, which screens companies against various global norms.[1] We also review company reporting and the reports of non-governmental organisations (NGOs) and other media. It is often a grey area, given the challenges of globalisation, complex supply chains, international law and product sourcing. We also have to interpret company code of conduct and modern slavery statements, audit processes, the risk of bad actors and potentially the opinion of a slighted party or self-interest group. If an issue is raised by MSCI or other sources, we will try to discuss it with the company or reporting entity, where possible. We seek to gain clarity on the issue raised and signal that Ruffer prefers companies to respect global norms, as much as is possible, across their supply chains and operations.

1 Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises, International Labour Organization's fundamental principles, UNGC and United Nations Guiding Principles for Business and Human Rights

HOW WE CONSIDER RISKS RELATED TO NATURE AND BIODIVERSITY

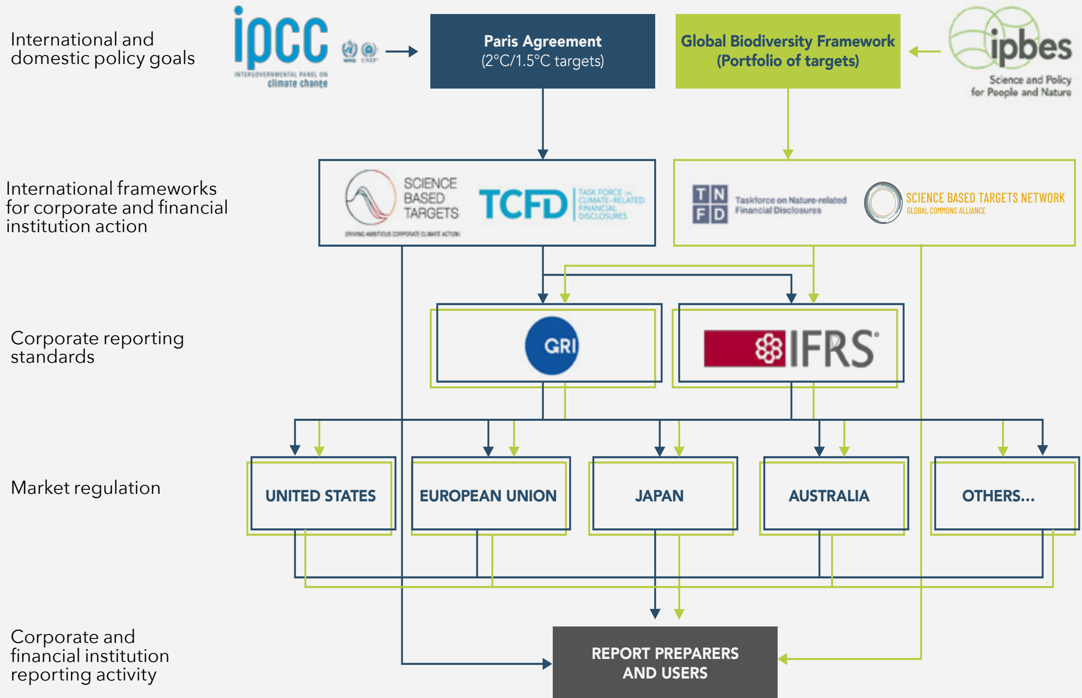
In December 2022, at the United Nations Biodiversity Conference (COP15), the conference of the parties agreed to adopt the Kunming-Montreal Global Biodiversity Framework (GBF), to guide global action on nature through to 2030. The GBF aims to address biodiversity loss, restore ecosystems and protect indigenous rights through four overarching global goals to protect nature

1. Halting human-induced extinction of threatened species and reducing the rate of extinction of all species tenfold by 2050
2. Sustainable use and management of biodiversity to ensure that nature's contributions to people are valued, maintained and enhanced
3. Fair sharing of the benefits from the utilisation of genetic resources
4. Digital sequence information on genetic resources; and that adequate means of implementing the GBF be accessible to all parties, particularly least developed countries and small island developing states

During 2023, as the Taskforce on Nature-related Financial Disclosures (TNFD) framework was launched, Ruffer continued to engage upon nature and biodiversity in our equity research, where relevant, and reviewed the data points related to biodiversity and nature available through MSCI ESG Research (which may be suitable to feed into our due diligence processes). We expect the TNFD to rise like the TCFD, as is reflected in the formation of collaborative engagement groups such as Nature Action 100.

We accept that nature and biodiversity are, in aggregate, threatened or in decline, and this is not independent of climate change and global warming. However, the analysis is difficult, due to lengthy supply chains and fragmented suppliers, opaque legal structures, the interplay between public and private investors and sovereign actors, demand for raw materials and challenges in collecting accurate and relevant data points. We see this as a market or systemic risk, similar to climate change. We contend the market has neither priced in the risk of passing tipping points or crossing planetary boundaries related to biosphere integrity, land-system change or freshwater usage nor adequately accounted for the value of dependencies on ecosystem services and natural capital in security valuation. At this time, we have chosen not to participate in collaborative engagements related to nature whilst we determine the value we can add and the resource we can commit. We have chosen to consider biodiversity and nature risks as part of our fundamental ESG due diligence process.

WHERE TNFD FITS IN THE EMERGING REPORTING ARCHITECTURE



Source: TNFD

CASE STUDY: AVIATION SECTOR
INDUSTRY: AVIATION

Themes
Environment – transition to Net Zero

Type of engagement
Collaborative – IIGCC Aviation Sector Working Group

Objective
Elevate engagement to the wider issue rather than the individual issuer and promote a reduction in emissions on an absolute basis

Outcome
Not applicable

CONTEXT

In 2023, we joined an Institutional Investors Group on Climate Change (IIGCC) working group focused on ecosystem engagement with the aviation sector. As a result of fundamental and ESG analysis across a handful of aviation companies, we concluded that decarbonising this emissions-intensive sector will need coordinated action from airlines, aircraft and engine manufacturers, fuel providers, regulators, government and policymakers. Given our exposure to selected players within the ecosystem, we wanted to elevate our engagement to address the wider issue rather than just the individual issuer. The IIGCC has started facilitating sector wide engagements within the steel and chemicals industries, so it felt like a good opportunity to work with institutional investors who recognise similar decarbonisation challenges in the aviation sector.

ACTIVITY

The first line of engagement was to send a letter to the European Commission, pushing for the removal of aeronautics as a specific activity under the EU taxonomy for sustainable activities. This framework seeks to direct capital to 'greener' sectors by classifying certain activities as compatible with the EU's commitment to carbon neutrality by 2050. The theory behind the framework is that taxonomy-aligned activities will be easier to finance, pushing the cost of capital down. Conversely, non-aligned activities may face a higher cost of capital, forcing companies and sectors to invest in 'green' products and services, thus ultimately driving up their return on invested capital.

The aviation industry has been lobbying for activities that focus on fuel efficient aircraft to be classified as 'green' and compatible with EU climate goals. We disagree. Despite better fuel efficiency, these planes may still primarily run on fossil fuel-based aviation gas. Even if efficiency is improved further, increased volume of flights would probably outweigh any efficiency gains, resulting in an increase in absolute emissions. Furthermore, we would not consider improving fuel efficiency

to be a transitional activity given the carbon lock-in potentially associated with new planes. With a lifespan of up to 30 years, some degree of carbon emissions is locked in, unless these planes and the engines they use are also 100% compatible with sustainable aviation fuel (SAF), where the SAF is certified sustainable and meets quality assurance standards.

OUTCOME

We recognised that, by promoting the restriction of certain activities (thereby indirectly constraining funding), we might indirectly hamper companies we hold which are looking to fund capital investment. In fact, such restrictions could benefit leaders in the space by raising standards across the industry. The other element to consider is whether policy-level engagement is within our remit as investment managers. We believe that a broad application of engagement, sometimes called system stewardship, is an additional tool to drive the behavioural change needed, so all possible levers should be pulled. We also observe that investors are starting to incorporate policy engagement into stewardship activities as another tool for effecting change.

This conflict between benefits to individual holdings and systematic benefits was referred to Ruffer's then newly formed Responsible Investment Council. It agreed that classifying the manufacture of fuel-efficient aircrafts as compatible with EU climate goals would risk undermining the taxonomy's credibility. Importantly, the decision to co-sign the letter should not set a restrictive precedent when it comes to policymakers. We will maintain flexibility to consider each policy engagement individually and assess whether we want to be involved case by case.

Principle 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities.

At the beginning of 2023, the Ruffer Executive Committee approved a responsible investment direction document outlining our strategic focus and articulating the case for responsible investment at Ruffer. This set priorities for the year ahead, covering integration, stewardship and climate.

OUR RESPONSIBLE INVESTMENT POLICY

Our Responsible Investment Policy and associated processes for integration and stewardship are updated, amended and supplemented as needed by the Responsible Investment team and are formally reviewed annually by the OCC. Our policy is available at ruffer.co.uk/ri-policy

WHO ARE INTERNAL ASSURANCES GIVEN BY?

BOARD

EXECUTIVE COMMITTEE

OVERSIGHT AND CONTROL COMMITTEE

RESPONSIBLE INVESTMENT COUNCIL

RI SPECIALISTS

COMPLIANCE REVIEW

Oversight of Ruffer's responsible investment activities lies with the Ruffer LLP Board, whilst the Executive Committee is accountable for responsible investment strategy, risk management and stewardship activities.

The Executive Committee delegates oversight of these activities to the OCC, a sub-committee which oversees the implementation of policies and processes and monitors key controls, in line with relevant regulation and in support of the firm's three lines of defence model.

The RIC is a management committee, which supports the OCC in terms of the development, effective day-to-day management, oversight and implementation of the firm's responsible investment direction.

The RIC has the authority to make non-contentious decisions on behalf of the OCC. Any decisions which may have a reputational or otherwise material consequence for the firm must be escalated to the OCC or the Executive Committee to manage as appropriate.

All staff members in investment roles are encouraged to complete the Principles for Responsible Investment (PRI) Applied Responsible Investment training programme or another similar certification. Given the relevance of ESG factors to the investment process, we consider these formal qualifications important, and we support staff who wish to do additional sustainability or ESG qualifications.

Investment approach

Principle 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

The Ruffer investment approach is unchanged from when the firm started in 1994. We actively manage investments, mainly in conventional assets, and operate freely, without restrictive benchmarks. We seek to be responsible investors, integrating ESG issues into our investment process.

HOW WE ADDRESS THE NEEDS OF OUR CLIENTS

Client service is at the heart of what we do at Ruffer.

Ruffer's clients range from private clients to charities and pension funds. Whilst most clients are domiciled in the UK, our international client base accounts for a growing proportion of the total. The breakdown of our assets under management by client type and by geographical region is shown below.

Ruffer is an active investment manager with an absolute return strategy to deliver our objectives. Protective assets are held alongside growth assets, with the allocation changing depending on our market outlook. We look to construct all-weather portfolios, which seek first to protect our clients' assets from capital loss and secondly to provide opportunities for growth.

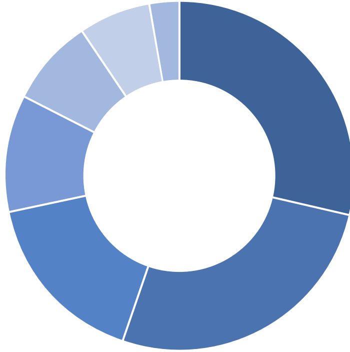
The growth assets are typically listed equities and credit (corporate bonds), including exchange-traded funds (ETFs).

The inflation-protection assets are a combination of inflation-linked bonds and exposure to commodities (gold and precious metals held via exchange-traded commodities).

The protective assets include currencies, fixed income (conventional or nominal sovereign bonds) and derivatives (including futures, options, swaptions, interest rate swaps and credit default swaps).

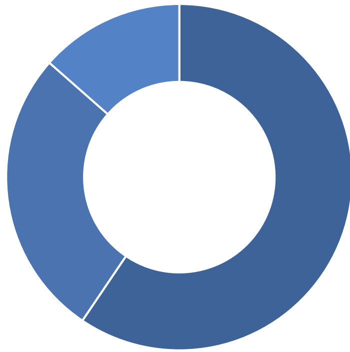
Due to shorter-term volatility, current and potential clients should consider an investment period of at least two years. We encourage our clients to judge our performance over a market cycle, which means taking a long-term view.

Assets under management £23.7bn as at 31 December 2023



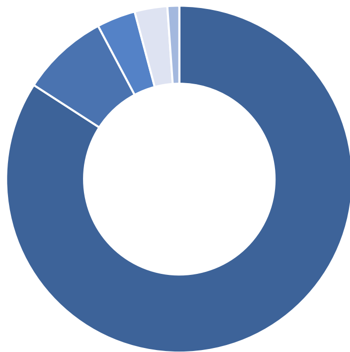
CHANNEL	£M	%
PRIVATE CLIENTS	6,847.0	28.9
PENSION FUNDS	6,287.4	26.5
WEALTH MANAGERS	3,896.0	16.4
OTHER INSTITUTIONAL	2,539.1	10.7
FINANCIAL PLANNERS	1,957.3	8.3
CHARITIES	1,566.7	6.6
RETAIL	626.2	2.6

By channel



	%
PROTECTION STRATEGIES AND CASH	59.4
GROWTH	27.0
INFLATION	13.5

Geographic distribution of clients and investors



	£M	%
UK	19,954	84.1
EMEA	1,924	8.1
ASIA PACIFIC	856	3.6
NORTH AMERICA	724	3.1
OTHER	262	1.1

Source: Ruffer LLP, totals may not equal 100% due to rounding

HOW WE COMMUNICATE WITH CLIENTS AND INVESTORS

At Ruffer, clients are our priority. We strive to maintain a transparent and responsive dialogue with clients to ensure we meet their needs. We provide responsible investment reports quarterly, along with bespoke reporting to satisfy our clients' requirements.

This is achieved through a variety of channels.

We conduct stewardship activities on our clients' behalf. We provide an overview of recent engagement activities in our quarterly Responsible Investment Report, which is available to all clients. This is in addition to standard portfolio updates and valuation reports. Our stewardship activities are discussed in client meetings, and our ESG integration approach forms part of our standard presentation to clients.

We report our stewardship activities in the annual Stewardship Report in response to the UK Stewardship Code. We publish our voting records annually. We also publish a report responding to the TCFD recommendations. We produce on request voting data and significant vote information in the Pensions and Lifetime Savings Association (PLSA) Implementation Statement template.

We recently published the sixth edition of our annual Ruffer Review. The Review is designed to be wide-ranging and eclectic, both educating readers and stimulating discussion. Articles cover topics spanning from our investment thinking (notably, from Co-CIO Henry Maxey) and geopolitics to the rise of artificial intelligence. We also invite guest contributors to submit articles on issues we think will be of interest to a broad audience.

RUFFER.CO.UK/RUFFERREVIEW

HOW WE SEEK CLIENT VIEWS ON STEWARDSHIP AND ASSESS OUR EFFECTIVENESS

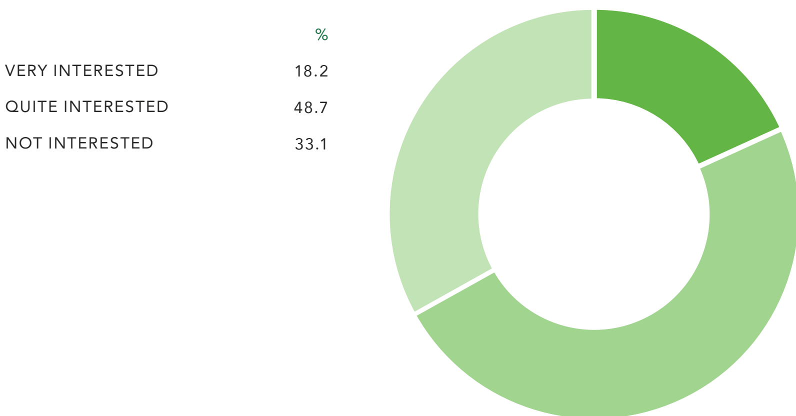
At Ruffer, we greatly value feedback from clients and other stakeholders. We receive feedback directly from clients in meetings and evolve our reporting to best meet their needs. For example, in 2023, we changed the structure of our Responsible Investment Report, which we continue to evolve. Any feedback is considered and, where deemed additive, incorporated into our process. These discussions inform our reporting efforts, engagement activities and proxy voting.

In 2023, as part of a reorganisation of the business, the private client team sent clients a questionnaire on various aspects of the firm, covering issues from communication style to attitudes towards ESG. The questionnaire was sent to 4,800 clients, 1,014 of whom replied, representing a 21% response rate. The results gave the business some key insights into what a large sample of our clients value (our ethos and investment strategy), would like more of (a mobile application to manage portfolios) or less of (for example, less jargon and more plain English).

Over two-thirds of respondents said they were quite interested or very interested in RI and ESG issues.

> Ruffer offers clients the opportunity to incorporate their values and beliefs into our investment approach. We have been managing portfolios with bespoke ethical investment policies since 2006.

How interested are you in Responsible Investment and ESG issues?



Ruffer encourages an open dialogue with clients on engagement and voting activities, both ad hoc and in formal meetings. We consider and may prioritise engagement topics brought forward by clients, which potentially inform our stewardship strategy, including voting. At clients' request, we will provide voting outcomes to meet due diligence, reporting or other needs.

We participate in asset (investment) consultant led due diligence surveys and respond to stakeholder questionnaires, the results of which help to inform our approach to responsible investment. We use the insight and feedback to review our practices and look at areas for improvement.

OUR APPROACH TO ETHICAL INVESTMENT RESTRICTIONS

Ruffer offers a pooled fund for charities which has a responsible investment policy incorporating ethical restrictions. This is designed to meet the needs of a wide spectrum of charity investors. Ruffer offers clients with segregated portfolios the opportunity to incorporate their specific ethical values and beliefs into our investment approach. We have been managing portfolios with bespoke ethical investment policies since 2006. The Responsible Investment team works closely with our client facing teams to ensure ethical investment policies are implemented so that clients' restrictions are executed accurately. Subject to commerciality, we will work with clients to find a bespoke solution if their desired ethical investment restrictions impair our ability to deliver Ruffer's investment objectives. We use a third party ethical screening and research provider, which offers a wide range of exclusion criteria.

OUR APPROACH TO SECURITIES LENDING

Ruffer does not loan securities over which we have custody. If we manage assets on behalf of a client in a separate or individually managed account, Ruffer will facilitate securities lending for that client only under written instruction.

Principle 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

Ruffer has one investment approach. We actively manage the Ruffer portfolio without restrictive benchmarks. We seek to integrate ESG considerations into our investment process and decision making across our client portfolios and flagship funds. We believe stewardship activities can lead to lasting and meaningful change, resulting in better long-term outcomes for our clients and other stakeholders. At Ruffer, we are committed to being good stewards of our clients' assets. To that end, ESG issues are integrated into our investment process.

ESG MATERIALITY ASSESSMENT

Our ESG analysis informs how we conduct our stewardship activities and the tools we employ to deliver on them. What we elect to do is informed by discussions between the RI team, the investment team and, where necessary, other investment or research directors. This is an important part of the process as it ensures our engagement and voting activities are integrated into our investment monitoring and oversight. This subsequently may inform our investment decision-making – be that to buy, sell or hold. We are committed to being good stewards of our clients' assets as we believe this contributes to improved investment performance.

Research analysts have primary responsibility for considering ESG risks and opportunities, supported by the RI team and RI specialists. For the most material or potentially contentious investments, an enhanced ESG due diligence analysis is required.

COMMONLY IDENTIFIED MATERIAL ISSUES

INVESTMENT PROCESS

At Ruffer, we are committed to being good stewards of our clients' assets. To that end, ESG issues are integrated into our investment process, which includes the following activities and functions

- collaborative research
  - in-house research
  - third party research
- proxy voting research
- direct engagement
- collaborative engagement
- collaborative initiatives
- client led initiatives and ethical restrictions

KEY FACTORS ANALYSED*

*Not exhaustive and not mutually exclusive; subject to materiality to the investment case

OUR RESEARCH METHODOLOGY

LISTED EQUITIES

For us, as an investment manager with a relatively concentrated portfolio of equity holdings, ESG considerations represent sources both of value and of risk. As we have one investment approach and conduct our own research, we integrate these considerations into our investment process. Our ESG framework allows an exploration of industry and sector-specific trends or themes, such as potential regulatory headwinds, possible disruption or how a company compares with industry best practice. The micro view then provides guidance to examine the fundamental risks and opportunities of each company separately.

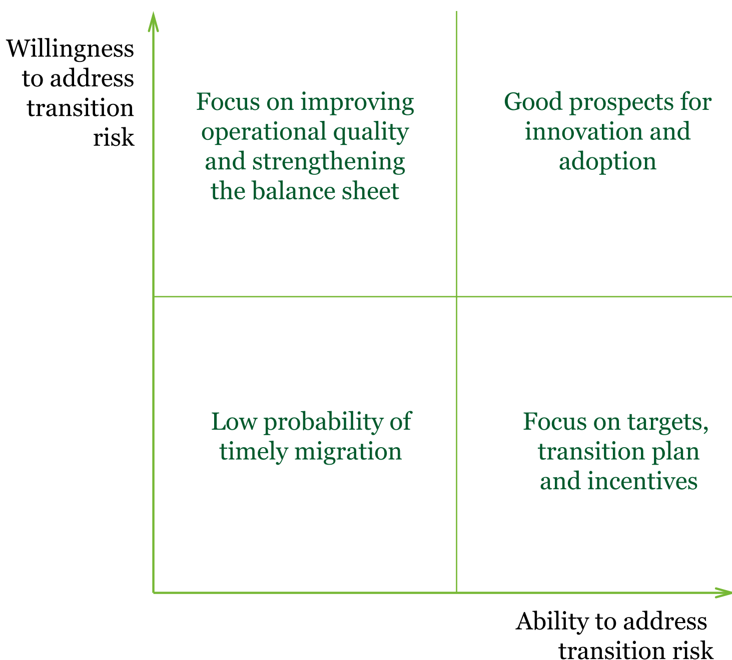
EQUITY SECURITY SELECTION

Our decision to invest in a company is based on fundamental research, which includes ESG research and analysis. The research analyst who completes the fundamental analysis integrates ESG considerations into their recommendation through completion of a basic ESG tear sheet. The tear sheet is partly automated – pulling data or metrics from MSCI, the Transition Pathway Initiative (TPI) and the Science Based Targets initiative (SBTi) – and partly populated by the analyst. The objective of the tear sheet is to highlight any material ESG risks and opportunities for stewardship and to consider the potential for any decrease of value or cash flows.

For material or potentially contentious investments or where Ruffer has a larger holding in absolute terms or as a proportion of issued share capital, a more extensive (enhanced) due diligence task is carried out, requiring detailed analysis, documentation and consideration. This enhanced due diligence is completed collaboratively by a member of the RI team or an RI specialist, alongside the security owner. This ensures a 'four eyes' independent review of issues which are possibly material to the investment case.

As a signatory to the NZAM initiative, we may supplement enhanced due diligence with a specific 'NZAM analysis' focused on issues related to climate and the transition to a Net Zero economy. This analysis blends CDP (formerly the Carbon Disclosure Project) carbon reporting, SBTi (where available), company annual reports and financial statements, sustainability reports and a benchmarking exercise using various financial and sustainability metrics on an absolute and relative basis. Here, we are trying to establish what elements may restrict and what factors may enhance a successful transition strategy, and the possible implications for issues like capital allocation, carbon cost pass-through, capital and operating expenditure and the sources and uses of cash.

We assess companies' willingness and ability to address key risks and opportunities



ESG considerations remain under review throughout our holding period. If we identify an engagement topic or theme which is material to the investment case, we will seek to engage. Our voting decisions may flow from engagement activities, and we exercise these rights diligently using Institutional Shareholder Services (ISS) research as an input into our voting decision.

As ESG risks and opportunities evolve, they are raised both informally across the desk and more formally – for example, if a material change to an ESG consideration impacts our investment thesis. This has, on occasion, led to a decision not to invest in a particular company, or to reduce or sell a position.

We believe successful ESG integration also identifies opportunities, such as companies which have made progress on addressing their corporate governance, environmental or social footprint or which already manage these well. Examples include companies tackling issues like gender equality, water management, biodiversity risk and capital allocation.

Our ESG analysis incorporates a range of qualitative and quantitative considerations drawn from internal and external research and from formal and informal data sources. We analyse relevant company information, including annual and sustainability reports. Our primary source of ESG data, metrics and research is MSCI ESG Research.

Other sources of data or frameworks include the following

- Sustainability Accounting Standards Board (SASB) framework
- TCFD reporting
- CDP
- ISS
- SBTi
- Transition Pathway Taskforce (TPT) Disclosure Framework

We review our data providers' performance from time to time and meet with emerging and alternative providers to assess whether their products or services could add value for our clients.

SOVEREIGN BOND SECURITIES

Sovereign bonds play a crucial role in our clients' portfolios. However, holding a bond does not confer proportional ownership of the issuer (whereas holding an equity does). In simple terms, a bond is a loan, a promise to repay principal and interest. We are not benchmark constrained, so we can alter our duration or holdings should our view differ from the market.

Integrating ESG presents greater challenges with fixed income, particularly sovereign bonds, than with equities. We consider both the issuer (for example, the United Kingdom) and, where relevant, the issuance (the actual bond, its purpose and its characteristics, such as coupon, tenor and ratings). Our macro views, and the role bonds play in the portfolio, allow us to consider ESG at the issuer level. That is, an ESG ranking becomes an input, alongside fundamental analysis, into country weight, security selection and portfolio construction.

SOVEREIGN BOND SECURITY SELECTION

We have established a framework to assess the underlying ESG risks in our sovereign bond holdings which sits alongside and complements our traditional fundamental analysis of debt instruments. This framework, consisting of country-level indicators to gauge each sovereign issuer's exposure, helps us to identify and assess sovereign ESG risks. It is impossible to perfectly model every individual factor, given data availability and other limitations.

Our framework includes a wide-ranging set of measures. We analyse environmental inputs, including renewable energy usage and waste recycling, and population studies assessing physical climate risk in low-lying areas. From a social and governance perspective, indicators are equally broad, touching on health and education, female labour force participation and measures of political stability and corruption. In total, we assess 14 thematic factors, using 37 internationally comparable datasets, for over 180 countries.

The output of the analysis is an ESG score assigned to each sovereign issuer. The model also allows us to identify where material risks for a particular sovereign are concentrated, giving us a basis for further research. To avoid over-penalising developing countries (given their limited resources for improvement), we assess the evolution of a country's ESG profile over time, to understand which governments have been taking actions and making improvements.

Transitioning to a more sustainable world is highly complex, and the sovereign framework we have created is not about binary investment decisions. Instead, it gives us an indicator of the different sustainability risks sovereign debt issuers face at a time of growing scrutiny and (financial) pressure on governments. This information should enhance our investment decision making and risk management of portfolios and may assist us in identifying key areas for engagement with policymakers.

OUR ENGAGEMENT RESPONSE

As our fixed income holdings are mainly government bonds, our direct engagement activities are limited. In recent years, we have engaged with national policymakers in the UK and overseas on topics from future debt issuance to sustainability regulations and disclosures. Arguably, market-wide fixed income ESG analysis and engagement is in its early stages, and successful engagement outcomes are probably best measured over decades rather than years.

Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) is the first publicly available, independent and open-source investor framework and database evaluating the climate action and alignment of sovereign bond issuers. A consultation was launched in February 2023 (Ruffer provided some feedback on the draft model) and it was officially launched in February 2024. Although we have not determined yet how, or if, we may incorporate ASCOR into our investment process, initial feedback was that the tool looks useful in trying to capture improvements in policy commitment. Our current methodology captures this kind of data, but the ASCOR framework improves on it. The one limitation to incorporating the tool outputs into our sovereign bond model is the coverage of sovereign issuers, but we may undertake a review of our proprietary model to assess whether we can make use of the additional insight.

Source: ASCOR

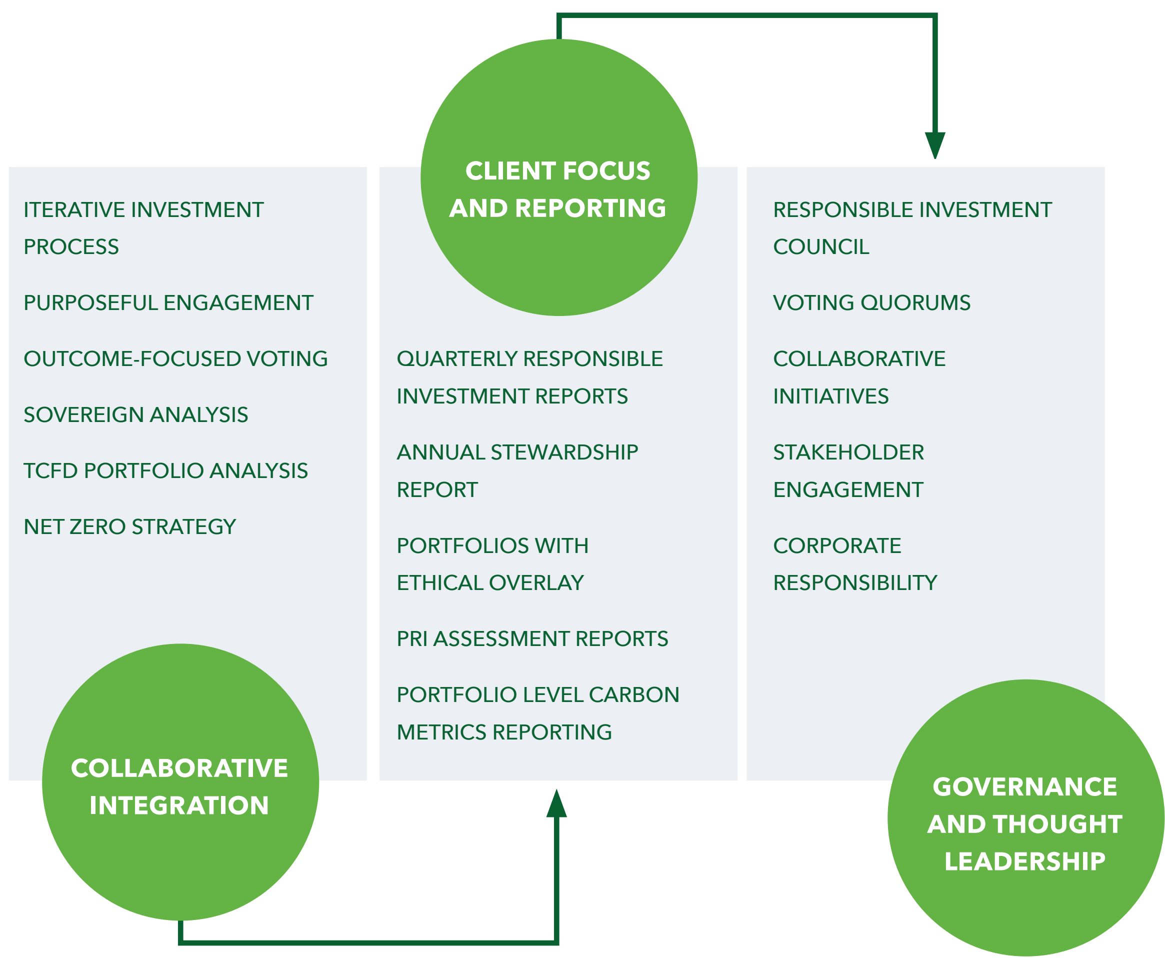
We also respond to policy consultations on a range of topics, primarily through industry bodies such as the Investment Association (IA) and the Personal Investment Management and Financial Advice Association (PIMFA). For example, we provided comment to the UK Taskforce on Social Factors, which subsequently published its Considering Social Factors in Pension Scheme Investments report. We also commented on the then proposed FCA Policy Statement PS23/16 Sustainability Disclosure Requirements (SDR) and investment labels.

OTHER ASSET CLASSES

In addition to conventional assets, we invest both directly and through specialist external managers in strategies designed to protect against increased volatility in

financial markets (not just equities, but currencies and bonds too) or a widening of credit market spreads. The main instruments used to protect against a widening of credit market spreads are credit default swaps (CDS). To protect against other risks, such as adverse currency or interest rate movements, we use financial instruments such as forwards, futures and options. We may buy or sell instruments that are either over the counter (OTC) or exchange traded. More recently, we have taken positions in exchange-traded commodities, which are in effect futures positions on commodities.

Using these instruments is key to effectively and efficiently implementing the Ruffer all-weather investment strategy. They help us to manage, or offset, market risks when we see clouds approaching. We currently do not consider ESG factors when investing in derivatives. We cannot take an active ownership role in the management of these instruments and securities. That is because we mainly hold interests in indices, rates or currencies which may not directly relate to any one company, commodity, issuer or security.



NET ZERO ASSET MANAGERS INITIATIVE

WHAT IS NZAM?

In its own words, “NZAM is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5 degrees Celsius; and to supporting investing aligned with net zero emissions by 2050 or sooner.”

As of January 2023, there were over 300 signatories, with a combined $60 trillion in assets under management.

Signatories commit to targeting Net Zero portfolio emissions by 2050 or sooner, supported by interim targets consistent with a fair share of the 50% reduction in emissions required by 2030. Signatories work with their clients to achieve emissions reductions in the real economy.

WHY IS RUFFER AN NZAM SIGNATORY?

Our assessment of the ESG risks facing investors concludes that managing climate risk presents the greatest challenge to meeting our investment objectives. To protect and grow capital, we are deepening our understanding of, and engagement with, the energy transition.

WHAT IS RUFFER’S APPROACH TO MEETING THE GOALS OF NZAM?

We prioritise reducing real world emissions over optimising portfolio emissions.

The core goal of NZAM is reducing emissions in the sectors its signatories invest in. Only through achieving this can real world emissions be lowered in line with the goals of the Paris Agreement.

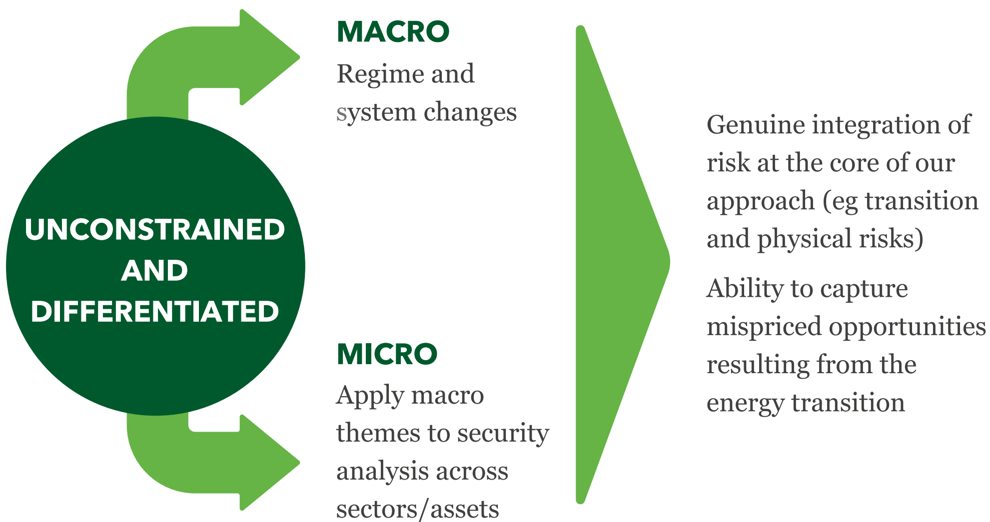
This approach is very different to building a green portfolio. Investing in a portfolio of low emission stocks and avoiding carbon intensive sectors may well achieve superficial decarbonisation within the portfolio. But it may have little or no impact on reducing real world emissions.

All elements of the economy, including both the consumers and the producers of carbon intensive goods and services, have a role to play in reducing emissions. In Ruffer’s view, real progress can be achieved only by acknowledging this and working with all sectors, even those that are hard to abate – that is, where it is difficult to avoid emissions. Blanket divestment is not the answer. We must engage with companies and issuers to catalyse the capital flows and innovation required to decarbonise the economy.

BUT WHAT IS OUR EDGE?

The strength of Ruffer's investment approach is the combination of a top-down macro understanding of potential regime or system changes with bottom-up research into the most appropriate securities to protect against and benefit from these changes. The Net Zero transition will be one of the key system changes of the coming decades. Ruffer's ability to combine macro and micro lenses – alongside a strong programme of stewardship – will be crucial to navigating the risks and capturing the opportunities the transition presents.

RUFFER'S INVESTMENT MODEL WITH RESPECT TO CLIMATE RISK AND OPPORTUNITY



CASE STUDY: VOLKSWAGEN
INDUSTRY: AUTOMOBILE

Themes
Human rights, remuneration, board structure and independence/effectiveness

Type of engagement
ESG integration

Objective
Encourage engagement with rating agencies, enhanced disclosures on supply chain and governance improvements

Outcome
Remain invested – continued monitoring, change in MSCI ESG controversy rating

CONTEXT

Volkswagen is a German automobile manufacturer and has been the largest global automaker by revenue since 2016. The company has maintained the biggest market share in Europe for over two decades. Over the course of our investment in Volkswagen, we identified areas where that may slow their journey to Net Zero emissions, including sourcing of batteries and critical minerals, and the cash flow implications of scaling up the electric vehicle (EV) business while reducing the output of internal combustion engines. We had concerns about the company's supply chain – specifically, allegations of the use of forced labour. Given the materiality of the identified issues, we engaged with Volkswagen to understand the reasoning for the current actions or lack thereof regarding their Net Zero ambitions.

ACTIVITY

During our engagement with Volkswagen, we discussed at length the responsible sourcing of critical raw materials and how Volkswagen monitors its supply chain. Also, within the supply chain, we were concerned about ongoing allegations of the use of forced labour, specifically the hiring of ethnic minorities in China through so-called labour transfer programmes. Earlier this year, MSCI deemed the issue a failure to comply with the UNGC, which could have negative ramifications for the company if investors were to screen out such stocks. The company confirmed an internal review has been conducted. As MSCI requires a third party audit before revising its assessment, we discussed the company's wider relationship with MSCI and other ESG ratings agencies and its intention to provide enhanced disclosure.

Regarding remuneration, we asked for an explanation for the increase in executive pay, which seemed high. We also discussed the board structure, as the current CEO of Volkswagen is also the CEO of Porsche. We were informed that robust governance measures were in place to avoid any conflict of interest, which reassured us, given that the CEO's dual role is unlikely to change in the immediate future. With respect to the audit committee not being fully independent, we expressed our preference for new appointees.

OUTCOME

We brought a range of issues to the company's attention and will monitor Volkswagen's disclosures in its next Responsible Raw Materials Report and other sustainability-focused publications. We will also monitor MSCI's assessment of Volkswagen and have noted that Volkswagen's UNGC failure was upgraded from a red to an orange flag. This reflected the third party audit commissioned by Volkswagen.

Although we were part of the discussion and are pleased with the outcome, we cannot claim credit for the recent results. At the company's next annual general meeting (AGM), we will assess whether our comments on audit committee independence were taken into consideration and may choose to vote against certain directors.

CASE STUDY: BP
INDUSTRY: OIL AND GAS

Themes
Environment – transition to Net Zero

Type of engagement
ESG integration

Objective
Encourage engagement with rating agencies, enhanced disclosures on supply chain and governance improvements

Outcome
Remain invested

CONTEXT

BP is a British multinational oil and gas company. It is one of the oil and gas 'supermajors' and one of the world's largest companies measured by revenues and profits. The company is vertically integrated, operating in all areas of the oil and gas industry, including exploration and extraction, refining, distribution and marketing, power generation, and trading.

We met with BP at the beginning of February 2023, primarily to discuss the previous quarter's performance and full year results for 2022. However, when the company announced its results, it also gave an update on strategic progress that garnered a lot of negative media attention about BP's commitment to Net Zero. Reports claimed that the announcement represented a row back on renewables and a shift towards oil and gas production, casting doubt on whether the company was really committed to moving towards a low-carbon world. We wanted to understand how the company intended to maintain its commitment.

ACTIVITY

As long-term shareholders of this energy major, we felt obliged to learn more about the seemingly mixed messages on BP's strategy and the role renewable energy will have to play. We spoke to BP's chief financial officer and the newly appointed executive vice president of gas and low carbon energy. They confirmed the company is aiming to marginally extend the life of its existing oil and gas assets to meet demand triggered by Russia's invasion of Ukraine but is doing so in a resource and energy efficient manner by using existing machinery and fields, rather than investing in intensive new projects.

OUTCOME

BP's announcements included $6 billion to $8 billion annually into low-carbon spending by 2025. What caught the headlines was an apparent shift away from flagship solar and wind energy projects. Our engagement highlighted that this reflects a modest shift in strategy instigated by Anja-Isabel Dotzenrath, the new head of BP's low carbon business. Dotzenrath will be focusing on higher margin low-carbon sectors, including green hydrogen, biofuels and vehicle charging.

We are supportive of BP's continuous reassessment of how to deploy its significant low-carbon investments to ensure the most attractive returns as it decarbonises its energy production. We plan to monitor BP's transition plan – in particular, the trajectory of its capital expenditures for both fossil fuels and renewables. Whilst we are reassured by our engagement and remain invested in BP, we cannot claim credit for the outcome.

Principle 8: Signatories monitor and hold to account managers and/or service providers.

CONTEXT

Ruffer uses the products and services of an array of third party providers across the business. With respect to responsible investment, we rely upon

- MSCI
- ISS
- CS HOLT
- SASB
- Bloomberg or FactSet
- CDP

DIALOGUE WITH OUR RESPONSIBLE INVESTMENT SERVICE PROVIDERS

We monitor the data we receive from our service providers and provide feedback as necessary. We also monitor industry trends and issues and speak to companies about the quality of data published by service providers, such as MSCI ESG Research and ISS. In addition, we compare the data and analysis of these service providers with our in-house analysis. On several occasions, we have relayed data issues to our providers. As we use the external research only as an input into our own analysis, rather than relying on specific ratings, we feel that having access to a variety of research methodologies adds to the depth of our analysis. We consider new providers when appropriate.

MONITORING OF EXTERNAL MANAGERS

Ruffer invests in specialist third party tail risk hedge funds that use credit and other derivatives. The relationships are managed by the macro team, who are responsible for implementation of the asset allocation decisions on credit and derivative strategies. The external credit managers can be categorised as hedge funds, as they can implement long-short investment strategies using fast (and slow) frequency signals and actively trade positions. Ruffer monitors these managers for investment performance, style consistency, changes at the manager and whether their philosophy and process continue to deliver the return and risk profile Ruffer is seeking for the portion of the funds committed.

CASE STUDY: MSCI (REGARDING ASSESSMENT OF GLENCORE)
INDUSTRY: MINING

Themes
Human rights, labour and ESG rating assessment

Type of engagement
Independent

Objective
Information gathering and querying change in assessment

Outcome
Remain invested

CONTEXT

The UNGC, launched in 2000, is a set of voluntary principles covering human rights, labour, the environment and corruption. The principles were designed to be universally applicable, to support the UN's Sustainable Development Goals and to provide a common ground for companies, governments and NGOs to conduct business activities. The UNGC is neither prescriptive nor legally binding. Human rights, labour, environment and corruption are often considered ESG issues. If reports surface which link a company's business activities to these issues, it may be flagged as a controversy, which could impair company value. Ruffer reviews controversies as part of its ESG analysis of companies.

In early 2023, MSCI ESG Research – one of our research providers – reassessed Glencore's involvement in the management of the Cerrejón coal mine in Colombia, as part of its controversy screening and monitoring. MSCI determined Glencore had failed UNGC's Principle 1 (businesses should support and respect the protection of internationally proclaimed human rights) and placed it on its watch list for Principle 7 (businesses should support a precautionary approach to environmental challenges) for its water management.

The reassessment was triggered by two factors. Firstly, MSCI changed its methodology for evaluating controversies. Secondly, Glencore's degree of ownership of the Cerrejón mine had increased, after it bought out two prior co-owners. By taking on full ownership, Glencore was deemed to be directly accountable for the controversy, despite its historical nature.

ACTIVITY

In response to the change in assessment by MSCI, Glencore wrote to shareholders and published a statement on its corporate website. We took the opportunity to meet with the company to discuss this issue, as well as other aspects of the business. Glencore argued MSCI's change of heart was due to the adjustments to its methodology combined with the change in ownership and what Glencore believed to be flawed analysis of Cerrejón's involvement in, or contribution to, the alleged human rights and water management infractions.

We followed up by meeting with MSCI to discuss the concerns raised by Glencore and to ask for additional clarity on the governance and oversight process. MSCI raised three main issues on the controversies. Firstly, they are normally perceived as detrimental to a company's reputation and thus have the potential to impact company value. So it's understandable that companies react defensively when called out for actions or behaviour that portray them negatively. Secondly, the assessment of failure of the UNGC is MSCI's own, based on a transparent, publicly available methodology. The UNGC provides no guidance on what constitutes a pass or a fail. Finally, whilst MSCI provides an assessment of controversies, it does not advocate action or inaction – this remains at the discretion of the parties that use its research.

We asked whether MSCI had considered additional material provided by Glencore or relied only upon NGOs and media reporting. MSCI said it placed greater weight on publicly available information – regardless of credibility or source – than information provided by the company. We understand this decision on weighting was escalated to the highest committee within MSCI ESG Research. We suggested this process would benefit from both independent (expert) members opining on information and analysis and additional transparency on how, and by whom, conclusions are reached.

OUTCOME

When using research from companies such as MSCI, we need to ensure the information is based on robust methodologies we agree with. It is no easy task to provide balanced and fair information, especially when the various sources have their own intentions or motives. MSCI provides information based on a published methodology on potential controversies. But we believe that, as an influential organisation in the ESG space, it should continually assess and enhance its own methodologies to ensure it provides a fair and balanced view.

Engagement

Principle 9: Signatories engage with issuers to maintain or enhance the value of assets.

Engagement is an effective tool for achieving lasting and meaningful change. This may result in superior outcomes and returns for our clients, as well as delivering benefits to stakeholders, the environment and society.

Our engagement framework was constructed to distinguish between standard and detailed engagements.

Standard engagements involve discussions with companies to obtain more information on a specific issue and press for change, as necessary. These engagements are usually led by the research analysts, with support from the RI team or specialists where required.

Detailed engagements involve the development of an engagement plan, which may include clear objectives and timeframes. It aims to influence the activities of a company where our analysis has identified risks or opportunities, and we believe we can achieve lasting and meaningful change. These engagements are usually led by the RI team, working collaboratively with the research analysts.

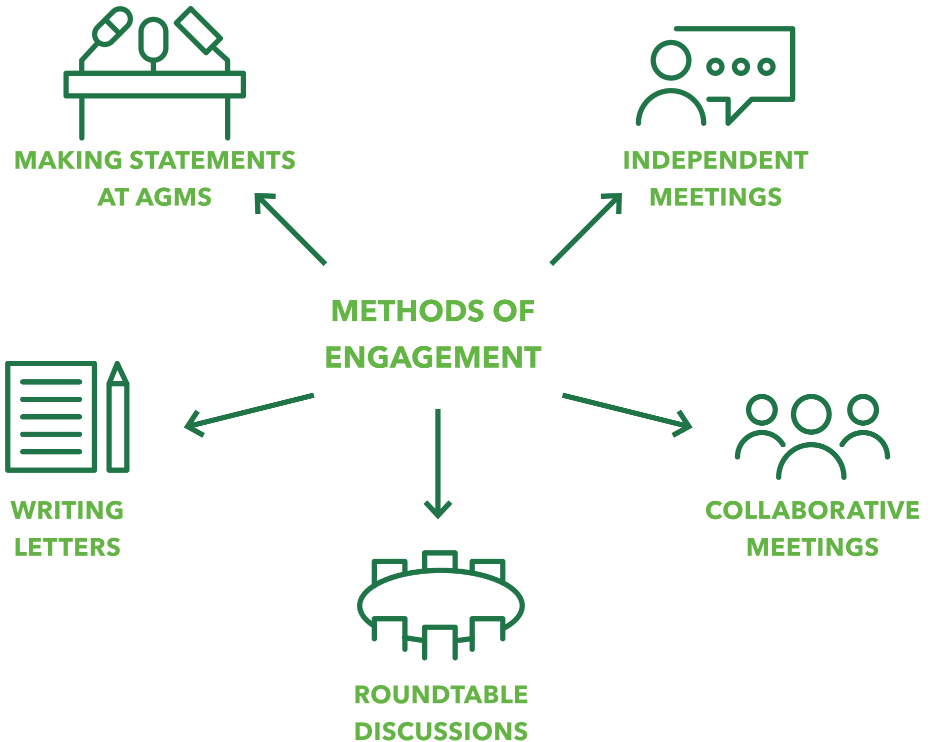
We consider this collegiate approach to engagement to be particularly powerful. It enables detailed, well-informed discussions with companies on issues we deem material, helping to build relationships and communicate the need for change.

We will engage independently or through collaborative initiatives with other investors who share our concerns. Our approach to engagement reflects both our specific investment objectives and approach and the resources we can dedicate to these matters. As we have a single, global investment strategy, we apply our approach to engagement across regions.

Ruffer's resources for each engagement will be managed according to the circumstances and potential impact of each case. How far we may expect to effect change will depend on the specific situation. Whilst it is practical to consider the significance of our holdings in terms of issued share capital or as a percentage of our AUM, engagement or escalation is not restricted to our major holdings.

Most of our engagements take place through direct communication between Ruffer and investor relations teams, sustainability teams, company management or non-executive directors. In some cases, this complements collaborative engagement. We may also occasionally write letters to company management or board members and attend AGMs. In addition, other methods can be used to progress engagement, especially when considering complex issues such as climate change where it is necessary for companies to build partnerships both within and across industries.

In 2022, we developed a formal engagement tracker tool to record our engagement activities. This tool is a supplement to the detailed notes recorded as part of engagement and also enables research analysts to quickly log their ESG-related engagement activities. In 2023, we considered ways of establishing and measuring the outcomes of these activities. Whilst we endeavour to report on our engagement activities, in some situations it is not appropriate as discussions may be ongoing or we consider the engagement confidential.



CASE STUDY: RYANAIR
INDUSTRY: AVIATION

Themes
Environment – transition to Net Zero and climate target setting; governance – data disclosure

Type of engagement
Independent

Objective
Encourage engagement with SBTi, enhanced disclosures and governance improvements

Outcome
Remain invested – monitor disclosures and its engagements with SBTi

CONTEXT

Ryanair is an Irish low-cost carrier group. We sought a meeting with Ryanair to discuss the company's efforts on the use of sustainable aviation fuel. The shortage of SAF and the cost premium – coupled with upcoming regulation – raise significant risks to the value of the assets and equally significant opportunities to take a leadership position. Thanks to its market leading position in European short-haul travel, we believe it is well placed to use its size and influence – not to mention its superior financial flexibility – to deliver on the aviation industry's transition objectives whilst also creating value for its shareholders.

ACTIVITY

We asked for an update on the validation of the company's targets by SBTi and on Ryanair's partnership with Trinity College Dublin. Finally, we asked whether the company would disclose its SAF percentage uplift figure and lifecycle carbon intensity more prominently so that the market can observe any progress more clearly.

On better disclosures around SAF uplift figures, we explained that, whilst we can infer the numbers from CDP disclosures, it would be helpful for investors to see the company publishing data itself. The company noted that it would likely be required to include SAF uplift figures in its Sustainability Report under incoming Corporate Sustainability Reporting Directive (CSRD) regulations.

OUTCOME

On SBTi, Ryanair confirmed that it had formally submitted its targets, but the validation process was slow-moving. The company had been engaging with SBTi when guidance for the aviation sector was being prepared. Moreover, Ryanair gave a detailed update on its partnership with Trinity College Dublin, and how research was focused on getting a better understanding of CO_2 savings in feedstock.

We continue to be impressed by the company's approach to SAF and emission reductions more broadly and think the company is well placed to reinforce its competitive advantage through the transition. We will monitor the company's disclosures as well as the SBTi database for an update on the validation of Ryanair's emissions reduction targets. We also plan to wait until the release of the company's next Sustainability Report to see whether our requests for better data disclosures are considered.

CASE STUDY: MARKS & SPENCER
INDUSTRY: CONSUMER RETAIL

Themes
Environment – carbon and greenhouse gas emissions

Type of engagement
Independent

Objective
Information gathering

Outcome
Remain invested

CONTEXT

M&S announced plans to demolish its flagship Oxford Street store, rather than refurbish the existing asset. The question of embodied carbon had been raised by environmental activists, but M&S's research showed the embodied carbon on the new building would be offset within 11 years, given its energy efficiency plans, a timeframe well within the building's planned life. The result would be a building with floor plates and amenities suited to contemporary retail. The Oxford Street store dates to 1929 and has misaligned floors and poor back-of-house infrastructure, making it disproportionately energy intensive and inefficient from a retailer's perspective. M&S's general preference is to refurbish, and the refurbishment of its Chelmsford site is an example of where this has worked. M&S contends a retrofit for the Oxford Street buildings would be economically unfeasible.

ACTIVITY

Our meeting discussed a broad range of topics. Given the media attention and increasingly politicised debate over the company's flagship store on Oxford Street, we sought more information around the decision to demolish as opposed to retrofitting. We also asked for some insight into how M&S was approaching the public relations angle of the debate – to ensure its rationale for demolishing was communicated effectively in the public forum.

OUTCOME

M&S confirmed it had an extensive engagement plan and was communicating directly with educated architects and environmentalists on the work that went into the decision. We were pleased to see the extensive consultations M&S took when considering the next phase of the flagship store. The company recognised that, from a financial perspective, the flagship's contribution has declined as a major store in the chain, but it has value and the ability to become a growth asset. We intend to monitor the news flow around the debate, and the outcome of M&S's challenge of the decision by the Department of Housing and Communities to reject the plans to demolish.

CASE STUDY: GRIFOLS
INDUSTRY: BIOPHARMACEUTICALS

Themes
Human capital

Type of engagement
Independent

Objective
Push for change

Outcome
Remain invested

CONTEXT

Grifols is principally a producer of blood plasma-based products. It is the European leader and largest worldwide. The company also supplies devices, instruments and reagents for clinical testing laboratories. As part of enhanced due diligence, we identified two issues, which we thought might be related. Based on company disclosure, we identified the company had a high level of staff turnover. We also noticed it had a significant but not insurmountable level of debt, all things being equal. We speculated that with high staff turnover came increased costs in attraction, retention and training, but the company was possibly constrained in these activities due to the burden of interest payments on its debt.

ACTIVITY

We arranged a meeting with the company to discuss these issues, as we felt that should the company be able to retain its people and reduce its debt burden, the valuation gap could potentially close. Grifols said it was aware of its high turnover ratio but felt constrained in its action by the nature of the market. Moreover, the company operates in a geographic region where the skills of its people are sought after, and Grifols provides training to its people which gives them opportunities to move to other companies offering further skills growth and career opportunities.

OUTCOME

Grifols currently does not measure return on employee training. However, given this was our first conversation with the company since investing, we intend to continue to build our relationship with Grifols and, in time, set key performance indicators for some productivity measures.

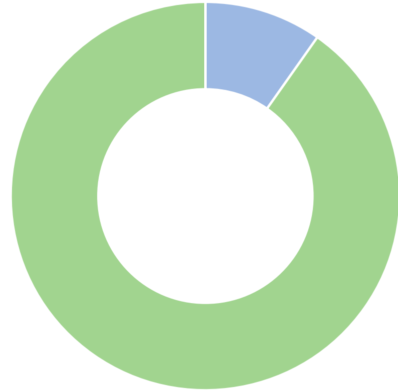
Before we were able to hold further discussions, a short-seller report was published alleging the financial statements were improper due to related party transactions and the non-consolidation of certain items which would materially change the financial status of the company. Our analysis did not reach the same conclusion. Regardless, the third party report resulted in a major adjustment in share price, and the market is the ultimate arbiter. We are now reviewing our next steps.

ENGAGEMENT SUMMARY

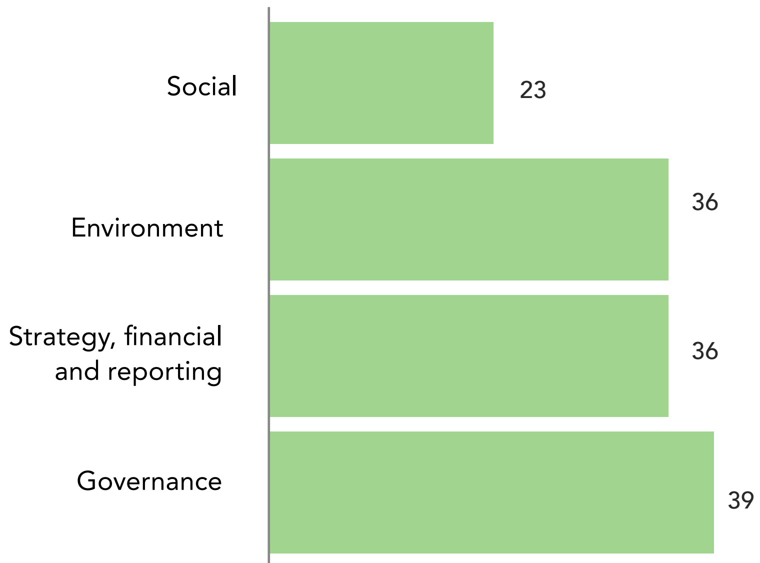
Ruffer believes that investor engagement is an effective tool to achieve meaningful change, and we are committed to engaging on a wide range of topics with companies in which our clients' assets are invested. In this section, we highlight significant and prevalent themes, regions and types of engagement.

ENGAGEMENTS

	%
Collaborative	9.8
Independent	90.2



ENGAGEMENT THEMES

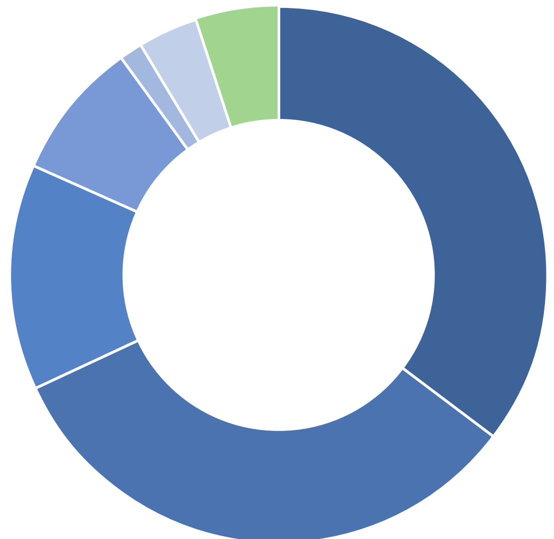


PURPOSE OF ENGAGEMENT

	%
To gather information	52.4
To push for change	47.6

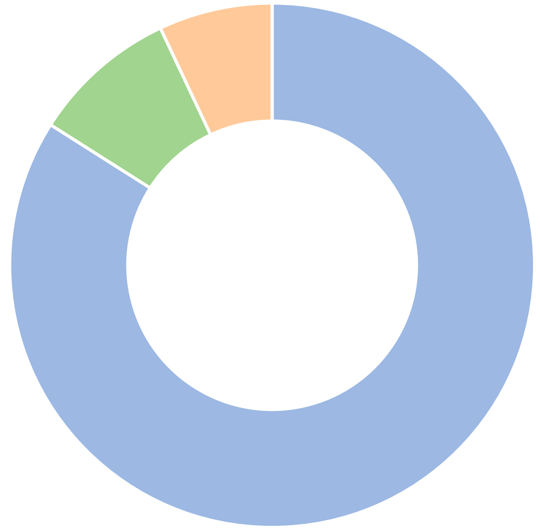
REGIONS ENGAGED

	%
Europe	35.4
UK	32.9
North America	13.4
Japan	8.5
Rest of world	1.2
Asia Pacific ex Japan	3.7
Multiple	4.9

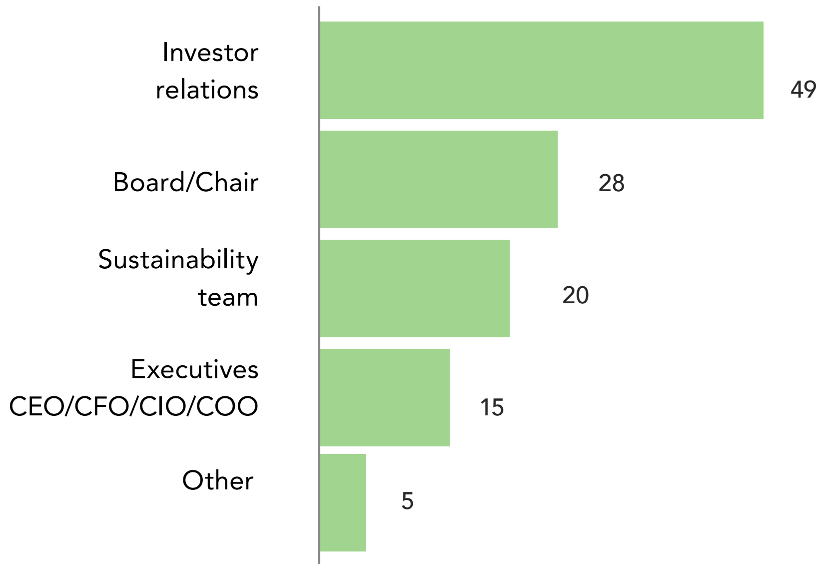


ENGAGEMENT INITIATOR

	%
Ruffer	84.1
Company	8.5
Other	7.3



COMPANY ENGAGEMENT ATTENDEES (82 IN 2023)



Principle 10: Signatories, where necessary, participate in collaborative engagement to influence issuers.

WHEN DO WE DECIDE TO PURSUE COLLABORATIVE ENGAGEMENT?

We collaborate with other investors who share our concerns on issues such as climate change.

In some instances, we believe collaboration with other investors may be the most productive way to engage. This could be when other investors share our concerns or independent engagement has not produced the outcome we seek. Collaborative engagement can also provide a platform to engage on wider sector, regulatory and policy matters with investors and other stakeholders. Ruffer is open to working alongside other investors on both policy and company-specific matters.

The following are examples of our collaborative engagements in 2023.

INSTITUTIONAL INVESTOR GROUP ON CLIMATE CHANGE

As a member of the IIGCC, we have actively engaged with its Climate Action 100+ initiative. Launched by IIGCC along with four other network partners in 2017, Climate Action 100+ is now the world's largest investor engagement initiative on climate change, engaging with top carbon emitters to promote Net Zero. We are co-lead investors for ArcelorMittal.

Moreover, the Net Zero Engagement Initiative (NZEI) was formally launched in March 2023, with initially 107 focus companies receiving letters undersigned by 90 participating investors. NZEI was set up to build on and extend the reach of investor engagement beyond the Climate Action 100+ focus list, including more companies that are heavy users of fossil fuels, contributing to demand for carbon intensive products. We co-signed letters to a number of companies, advocating for them to set robust transition plans.

Similarly, in 2023, we joined a nascent IIGCC aviation sector working group focused on ecosystem engagement. Given our exposure to the players across the entire ecosystem, we wanted to elevate our engagement to address the wider issue, rather than just the individual issuer. To do so, as part of this working group, we sent a letter to the European Commission, pushing for the removal of aeronautics as a specific activity under the EU taxonomy. Details on our activity with the aviation sector working group can be found under Principle 4, where we highlight our involvement in the industry initiative.

Also, we joined a newly formed Sovereign Bonds and Country Pathways working group. It aims to collaborate with sovereign entities to shape the low-carbon transition by encouraging favourable policy environments that spur further private investment and address mounting climate risks.

CDP

We believe in the power of collaborative engagement and are part of two campaigns run by CDP. First, the CDP Science-Based Targets (SBT) Campaign which was designed to encourage companies to set science-based targets to reach Net Zero. Our signature is added to a letter sent by CDP, and we trust that being involved in this initiative bolsters our collaborative engagement efforts.

We are also involved in the CDP Non-Disclosure Campaign (NDC), through which we have collaborated to encourage transparency by engaging with companies that have failed to respond to requests to disclose through CDP's climate change, forests or water security questionnaires. As participants in this campaign and signatories to CDP, we sent a letter to select companies and continued with our own independent engagement from there. Details on such an engagement can be found below in the case study on Perseus Mining.

CASE STUDY: ARCELORMITTAL
INDUSTRY: STEEL

Themes
Environment – transition to Net Zero and climate target setting; governance – board diversity

Type of engagement
Collaborative – Climate Action 100+

Objective
Encourage engagement with SBTi to develop a steel methodology, enhanced disclosures and better board diversity

Outcome
Remain invested

CONTEXT

ArcelorMittal is a multinational steel manufacturing corporation formed in 2006 from the takeover and merger of Arcelor by Mittal Steel. The company has been a long-term holding for Ruffer, and we have engaged extensively with it, both individually and with the Climate Action 100+ initiative as a co-lead investor. Over the years, we have seen tremendous progress in its decarbonisation journey. In 2023, we continued to push the company for more ambitious steps.

ACTIVITY

We asked for comprehensive disclosure on emissions associated with the company's joint venture with Nippon Steel in India when ArcelorMittal publishes its updated Climate Action Report in early 2024. We also asked whether the board has sufficient sustainability expertise.

OUTCOME

ArcelorMittal has earmarked specific decarbonisation projects across its operations to the transition to Net Zero, having put forward a $10 billion capital allocation plan in 2021. It also has targets to reduce carbon emissions by 35% in Europe and by 25% globally before 2030 and to reach Net Zero across its global operations by 2050. The company has confirmed that, although the business is complex because of both geography and technology, it is confident it will meet its short-term emissions reduction targets.

As an industry leader, ArcelorMittal has been a member of the expert advisory group for the development of SBTi methodology for the steel industry and has contributed significant time and effort to this endeavour. We have been assured that, since appointing a head of the sustainability committee who also serves as a board director, the company has internally reassessed its approach to target setting through SBTi lenses.

As we were part of the discussions, we are pleased with the steps ArcelorMittal is taking towards its decarbonisation target. However, we cannot claim credit for the recent results. We are comfortable with ArcelorMittal's progress over the course of 2023. We intend to wait until the company publishes its next Climate Action Report to see what tangible progress has been made in the way of reducing emissions before engaging further.

CASE STUDY: SHELL
INDUSTRY: OIL AND GAS

Themes
Environment – transition to Net Zero strategy

Type of engagement
Collaborative – Climate Action 100+

Objective
Encourage clarity on transition strategy and identifying possible impediments to a smooth transition

Outcome
Remain invested

CONTEXT

We have been actively involved in Climate Action 100+ since the initiative was set up in 2017. Whilst lead investors of the ArcelorMittal working group, we have also been supporting investors for other working groups focusing on high-emitting companies, including that of Shell. The group was pleased Shell published an estimation for oil and gas production and forecast that production would be between 15% and 24% lower. The group also welcomed the disclosure of liquefied natural gas (LNG) sales and forward-looking capital expenditures. However, there was disappointment around the hurdle rate for upstream and integrated gas projects being lowered, as well as plans to increase LNG sales. Shell announced it was scrapping its power sales target and substantially reduced its target for electric vehicle charging points. Finally, the company did not disclose capital expenditure plans for low-carbon projects.

ACTIVITY

In July 2023, we joined a call with the lead and other supporting investors to reflect on Shell's recent Capital Markets Day announcements and discuss how the collaborative group of investors could engage more productively with the company.

The group discussed the level of clarity of Shell's energy transition strategy, whether investors had been given confidence that Shell is laying the foundation to accelerate the energy transition by the end of the decade and how the group might feed this back to the company effectively. Part of this consideration stems from a strained relationship between the working group and Shell, given that the group has been quite outspoken ahead of the company's AGM this year.

The conversation turned to how investors could work with the company to identify bottlenecks to the transition, and one suggestion was through policy. By recognising the policy gaps, investors might be able to facilitate a collaborative effort between oil and gas companies, their upstream and downstream counterparts, regulators and policymakers. The group considered commissioning policy groups to help identify which policy levers could be pulled.

OUTCOME

Whilst remaining a part of the Climate Action 100+ working group, we plan to continue engaging with Shell individually, when our position is more substantial.

CASE STUDY: PERSEUS MINING
INDUSTRY: MINING

Themes
Environment – transition to Net Zero; governance – data disclosure

Type of engagement
Collaborative – Non-Disclosure Campaign (CDP)

Objective
Encourage the company to respond to CDP's climate change questionnaire through the CDP reporting platform

Outcome
Remain invested

CONTEXT

Perseus Mining is an Australia-based gold producer, developer and explorer. Perseus operates three gold mines in Africa: Edikan in Ghana and Sissingué and Yaouré in Côte d'Ivoire. We wanted to explain the importance of reliable and complete environmental data for investors seeking to assess the risks to and impacts on their investments related to climate change.

ACTIVITY

We initially sent a letter to the company as a part of CDP's Non-Disclosure Campaign, co-signed by all other investors participating in the campaign, asking for the company to respond to CDP's request for climate change data.

We received a response from the CEO saying he would investigate Perseus Mining's capacity to respond before the initial deadline of the end of July, but the company was currently focused on producing its inaugural consolidated Operations, Finance and Sustainability Report for the upcoming year end.

We set up a call with the CEO and the general manager of communications and corporate services to further discuss our view on sustainability reporting and why we support CDP's disclosure initiatives. The CEO highlighted that, being resource-constrained, the company had decided to work with ratings agencies that evaluate across all dimensions of ESG, in contrast to CDP's sole focus on environmental data.

OUTCOME

We were pleased to see Perseus submitted its climate data to CDP, even if it couldn't receive a score for its response. The company is aiming to provide next year's data to receive a score from CDP. We intend to wait until the next reporting period to follow up with Perseus Mining and continue to encourage disclosure.

Principle 11: Signatories, where necessary, escalate stewardship activities to influence issuers.

HOW WE ESCALATE ENGAGEMENTS

We consider a variety of options and strategies to escalate engagements, depending on the circumstances. When an issue is identified, Ruffer usually raises it directly with the company, often with management or members of the board, to facilitate frank and forthright discussions. If the outcome of this direct engagement is not satisfactory, Ruffer may consider escalation, using a variety of options with a range of stakeholders at the target company, including the investor relations team, executive management and non-executive directors. The approach taken depends on the circumstances of each case and may change based on the company's progress towards our engagement objectives, other developments or our shifting priorities.

The internal governance of escalation, including the decision to vote against management, initially involves informal discussion between the RI team and the research analyst, and may also involve other investment directors and research directors. If the issue develops to the point of collaborative engagement, co-filing or filing shareholder resolutions or other public disclosure, the RI team will defer to the senior members of the investment team, the Responsible Investment Council or the Executive Committee, depending upon the materiality of the issue. More details on when we have used escalation tactics and the outcomes achieved can be found in our stewardship themes and engagement examples section.

ESCALATION POLICY

If engagement fails to meet the objectives Ruffer has set within a specified timeframe, we may use other means to seek to effect change. That is, we may escalate an issue or series of issues with the objective of achieving the desired engagement outcomes.

We use an internal framework that splits possible escalation actions into three tiers of severity. Which actions are selected, and in what order they are used, will be determined by our assessment of what is most likely to deliver the outcomes we seek, consideration of progress made by the company so far, the potential financial cost (to Ruffer or the target company) and the possible damage to reputation, amongst other factors.

We may, as a final and rare escalation step, divest from a company should we determine engagement has failed to achieve the established engagement objectives whilst giving due consideration to broader investment objectives.

Engagement escalation policy

CASE STUDY: AMBEV
INDUSTRY: BEVERAGE

Themes
Governance and leadership

Type of engagement
Independent

Objective
Encourage best governance practice to improve the independence of the board

Outcome
Remain invested

CONTEXT
Ambev is a Brazilian brewing company now merged into Anheuser-Busch InBev. Two directors on the company's board raised concerns for us about the strength of Ambev's governance. The first director is the Chair of the foundation that makes up part of the majority shareholding group. Although we feel the foundation should have board representation, the director has been on the board for 24 years and chairs three of the four board committees. Both these factors go against best governance practices. The second director we were concerned about is also the CEO of another business and sits on two other boards. We agree with ISS's assessment that the director is over-boarded and feel there are questions to be raised about his management track record.

ACTIVITY
We discussed the independence of the board of directors and expressed our intention to vote against the remuneration policy.

OUTCOME
The company acknowledged our concerns. To escalate the matter, we voted against the re-election of two board members as well as the remuneration policy at the 2023 AGM. We remain active shareholders and continue to monitor developments.

Exercising rights and responsibilities

Principle 12: Signatories actively exercise their rights and responsibilities.

OUR FRAMEWORK

Our framework references Ruffer's purpose, defined through our two investment objectives. We believe investing responsibly will lead to better long-term performance for our clients. The macro environment guides our asset allocation across the two major asset classes, sovereign bonds and listed equities, and our positioning within other asset classes, such as commodities and derivative strategies. The micro component refers to the fundamental analysis, including ESG factors, of the securities (both bonds and equities) we buy, sell and hold.

Our stewardship activities assist Ruffer with both macro analysis, such as by contributing to the identification and assessment of market-wide, systemic risk and well-functioning markets, and micro analysis, such as by identifying ESG strengths and weaknesses. Stakeholders include our data providers, regulators, central banks, NGOs and industry-led initiatives. We engage with stakeholders selectively. Our primary stakeholder, and the party to whom we owe our fiduciary duty, is our clients. This framework acknowledges that, as information and knowledge is acquired, our investment conviction or stewardship activities may change in response.

WHY DOES VOTING MAKE A DIFFERENCE?

We take our voting responsibilities seriously. We review relevant issues and exercise our judgement where necessary, based on our in-depth knowledge of each company. The opportunity to vote enables us to encourage boards and management teams to consider and address areas we are concerned about or want to support. We detail below how we exercise our voting rights and responsibilities for our equity holdings. Our fixed income holdings are mainly government bonds, which do not confer voting rights.

WHAT HAVE WE COMMITTED TO?

We vote on our total shareholding of the companies held within our flagship funds. Voting on companies not held in these funds is subject to materiality considerations. Our policy on voting reflects both our investment objectives and our investment approach. It is Ruffer's policy to vote on AGM and EGM resolutions, including shareholder resolutions and corporate actions. We apply this policy to both UK and international companies, reflecting the global nature of our investment approach.

HOW DO WE DEFINE A 'SIGNIFICANT VOTE'?

At Ruffer, as we manage capital on behalf of clients located within and outside the United Kingdom, we have adopted more than one definition of significant vote. For non-UK clients, we look to the Shareholder Rights Directive II (SRD II) and define a significant vote as any vote on a holding in our flagship funds. In the UK, we take a broader definition in line with the PLSA implementation statement. We define significant votes as those where there is a difference between the recommendations of the company, ISS and our internal voting guidelines. We also consider significant those votes that will be of particular interest to our clients. In most cases, these are when they form part of continuing engagement with the company or we have held a discussion between members of the investment, client and distribution and RI teams to make a voting decision.

HOW DO WE VOTE OUR PROXIES?

Our internal voting guidelines apply when we instruct a vote, regardless of which Ruffer fund or pooled account holds the company. Where a vote is cast against management or against a shareholder resolution, a clear rationale for the instruction is entered into the voting workflow. The guidelines include guidance for

1. Determining whether a remuneration policy should be supported
2. Determining independence and over-boarding of directors and the composition of board sub-committees
3. Commitments to support resolutions requesting disclosures aligned with the TCFD and political, lobbying or trade association payments or donations

Research analysts review relevant issues case by case. Drawing on support from our RI team (as needed) and accumulated knowledge of the company, analysts will make an informed judgement on how to vote. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the RIC. With complex issues, and those that could have a material effect on our investment thesis, we request additional information or more in-depth explanations from the company. If we decide to vote against management, we try to communicate this decision to the company before the vote and provide the rationale for doing so.

We review our voting rights as part of the ESG due diligence. For example, we consider which of the following apply: ‘one share, one vote’, dual-class shares, controlling shareholders, free-float, presence of poison pills or similar governance restrictions.

Ruffer has internal voting guidelines and has developed an integrated voting platform linked to proxy voting research, currently provided by ISS. These tools assist analysts in our assessment of resolutions and the identification of contentious issues. Although we take note of proxy advisers’ voting recommendations, we do not generally delegate or outsource our decision on how to vote on our clients’ shares. We have also co-filed shareholder resolutions where we felt this was the most appropriate course of action, in collaboration with like-minded investors.

For most of our clients, we exercise voting rights on holdings in the portfolio in accordance with Ruffer's voting guidelines. However, we can facilitate clients' voting instructions on both segregated and pooled accounts, provided we have sufficient administrative capacity and explicit client authorisation.

DISCLOSURE OF VOTING DECISIONS

Our voting decisions for our flagship funds are available at ruffer.co.uk/responsible-investing. On request, we can provide clients with tailored quarterly, biannual or annual voting reporting, which contains granular data, including at the resolution level.

VOTING DATA

The 2023 aggregated voting data presented here comprises all votes across Ruffer funds, institutional investors and private client holdings. We have not included client accounts where we do not have the authority to instruct votes.

Ruffer voted at 249 company meetings in 2023. At each meeting, several resolutions are usually proposed by management or shareholders. The majority of Ruffer's assets are managed either through our flagship funds or in segregated accounts managed to the same strategy.

We estimate that we cast votes at company meetings accounting for 77% of the equity AUM measured as at 31 December 2023. There were 187 companies that we voted on in 2023 but no longer held as at 31 December 2023. We face several challenges in calculating this figure, including legacy holdings of non-managed assets, which we hold mainly for private clients in separate accounts, a 'voluntary' list of companies where the analyst has discretion to vote, and the fact that the equity weight is taken at year end rather than calculated at the time of voting.

It is the analyst's responsibility to continue to monitor these considerations and to decide how to vote at company AGMs or EGMs.

VOTING AGAINST MANAGEMENT RESOLUTIONS

Voting is a powerful tool to encourage boards and management teams to consider and address areas we are concerned about, particularly if engagement has not been successful. We highlight our votes against management to demonstrate we make our voting decisions independently. We later seek to discuss any shareholder resolutions we voted in favour of which were against the recommendations of the company. In 2023, we voted against management predominantly on issues relating to the independence and effectiveness of directors and executive pay. The companies varied in size, sector and location, ranging from American technology companies to global mining companies. The chart overleaf shows votes against management by type of resolution.

NON-EXECUTIVE DIRECTORS, BOARD STRUCTURE AND INDEPENDENCE

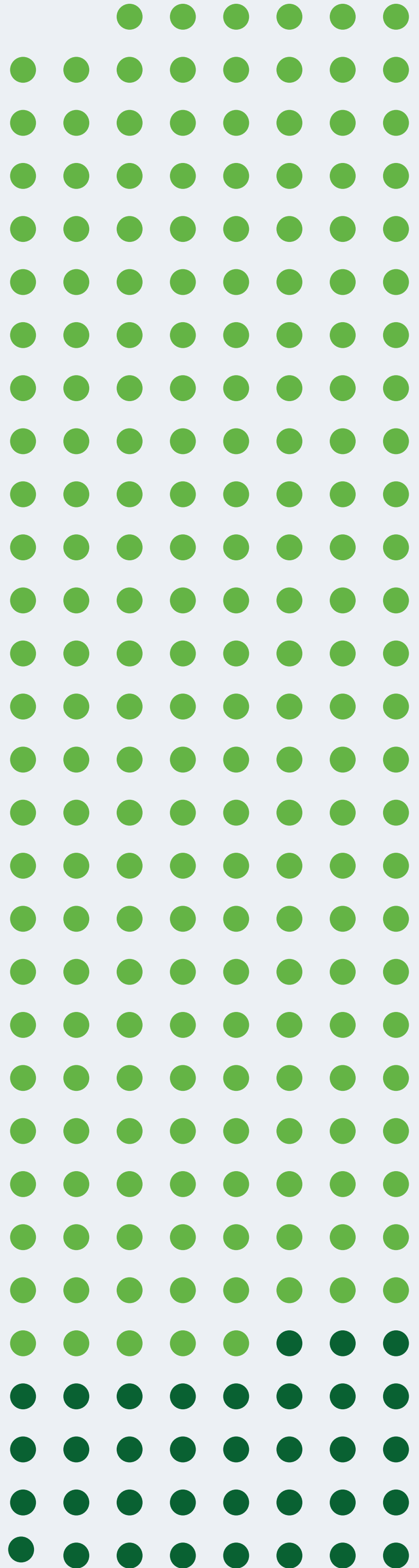
In most circumstances, we think it is of fundamental importance that a board has a majority of demonstrably independent directors. This, we believe, is essential to provide a robust oversight of, and counterbalance to, the company's management. Where management teams are not significant owners of the business, it is crucial to countering the principal-agent problem, where the owners' and managers' interests are not sufficiently aligned. Measures of independence include how long a director has served on the board or prior organisations where the director has served as an executive or non-executive. We have incorporated these into our internal voting guidelines.

VOTING SUMMARY 2023

Resolutions voted	#	%
For	**2,755**	92.6
Against	**144**	4.8
Abstained or withheld	**77**	2.6
Total	**2,976**	100.0

238

MEETINGS VOTED



35

MEETINGS WITH AT LEAST ONE VOTE AGAINST, WITHHOLD OR ABSTAIN

KEY VOTING STATS

72	votes against management/board resolutions
72	votes against shareholder resolutions
8	votes withheld
7.7%	of votes against ISS recommendation
77.0%	of shares (by market value) were voted on*
85.9%	of mandatory list (by market value) was voted on*
167	votes against management recommendation

We voted in favour of 22.6% of environmental shareholder proposals.

We made 46 votes against the re-election of board directors (1.4% of director election proposals received or 3.1% of director election proposals voted on).

34.7% of total votes are in the UK and 65.3% overseas.

* Estimates based on data as at 31 December 2023. If, during the year we instructed a vote on a company meeting and subsequently sold the position, the market value of that holding would not appear in these estimates.

Resolution topic categories

DIRECTOR RELATED
Director related, director election

CAPITAL
Capitalisation

ROUTINE BUSINESS
Routine business, audit related, company articles, mutual funds

REMUNERATION
Compensation

REORGANISATION AND MERGERS
Strategic transactions, takeover related

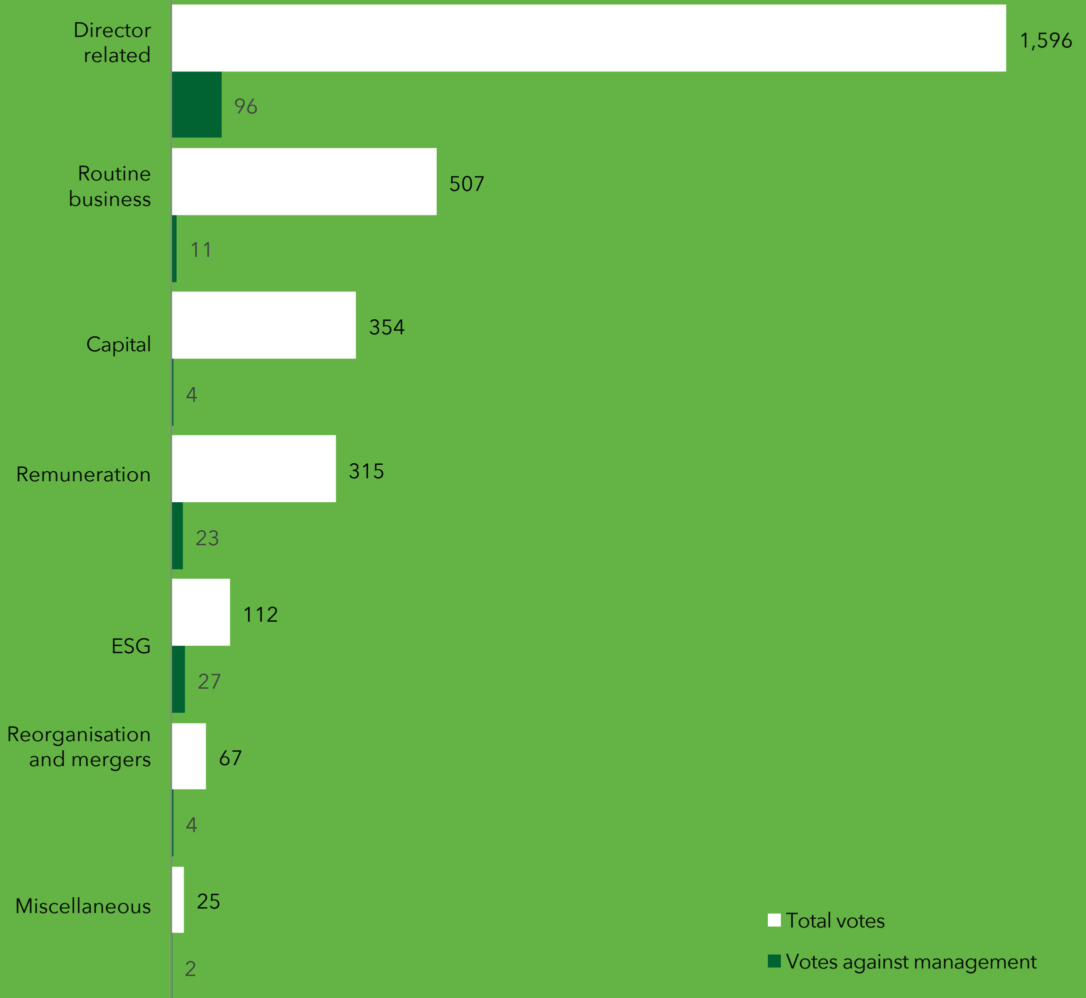
ESG
Corporate governance, environmental, social, E&S blended

MISCELLANEOUS
Miscellaneous, no research, non-routine business

VOTING AGAINST MANAGEMENT RESOLUTIONS

Voting in 2023	Total	Against management
Director related	**1,596**	96
Routine business	**507**	11
Capital	**354**	4
Remuneration	**315**	23
ESG	**112**	27
Reorganisation and mergers	**67**	4
Miscellaneous	**25**	2
Total	**2,976**	167

VOTES AGAINST MANAGEMENT RESOLUTIONS



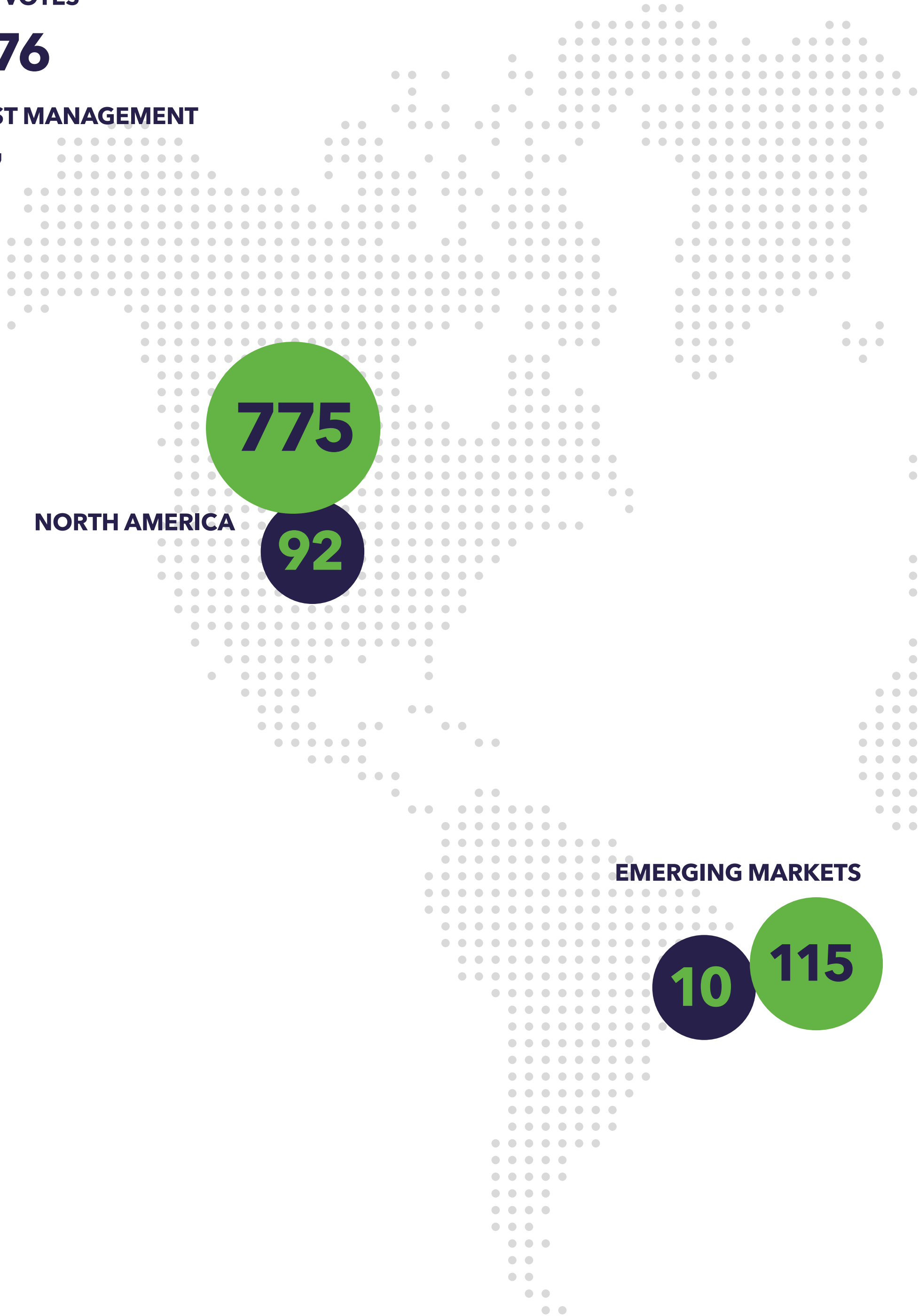
GEOGRAPHIC BREAKDOWN

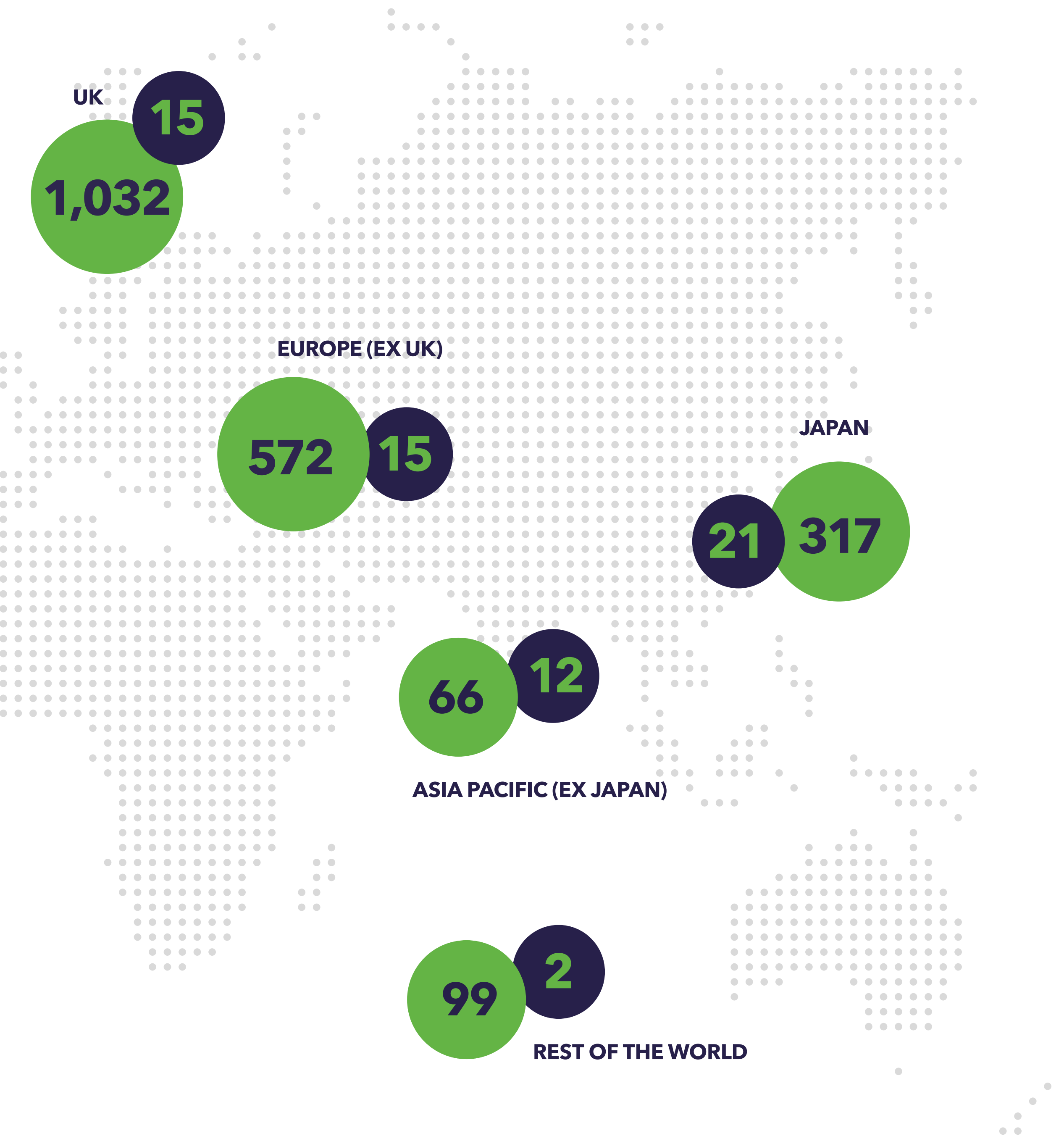
TOTAL VOTES

2,976

AGAINST MANAGEMENT

167




UK
15
1,032
EUROPE (EX UK)
572
15
JAPAN
21
317
66
12
ASIA PACIFIC (EX JAPAN)
99
2
REST OF THE WORLD

CASE STUDIES

GLENCORE

We voted to approve Glencore's 2022 Climate Report, despite ISS's recommendation to vote against. Questions persist over the company's alignment with the Paris Agreement, and ISS raised concerns about its investment in the energy transition and its advocacy and lobbying activities. In our view, running off its coal assets over time is necessary if it is to align with the Paris Agreement, as the carbon reduction from the closure of coal assets would far outweigh any transition investments. However, we recognise that much of Asia relies on both thermal and metallurgical coal for its energy and industrial needs, and this demand is unlikely to change in the short term. Glencore's track record in reducing its emissions so far seems to be tracking the company's stated plans, so we are satisfied with its progress.

Resolution outcome: Passed

We also voted in favour of a shareholder resolution on the next climate action transition plan, in line with ISS and against management. The proposal seeks clarification and information in Glencore's next Climate Report, including disclosure of how projected thermal coal production and associated capital expenditure aligns with the Paris Agreement and the extent of any inconsistencies with the International Energy Agency's Net Zero scenario timelines. We think the proposal to request additional information on the transition plan is the most appropriate next step.

Resolution outcome: Failed

BP

We voted against a shareholder resolution calling for BP to align its existing 2030 reduction aims for Scope 3 emissions with the goal of the Paris Agreement. ISS also recommended a vote against; whilst acknowledging the proposal's merits, it noted that this would represent a change in strategy, implying a potential constraint on the board's ability to develop and implement strategy. BP has, in our opinion, outlined a credible transition strategy (with appropriate decarbonisation targets) that reflects demand for oil and gas derived energy whilst allocating up to $8 billion more to its 'transition growth engines'. Although BP has tightened and reduced its 2025 and 2030 aims, it has retained its 2050 Net Zero target. BP argues the transition is uncertain, so locking into one, fixed strategy (through investing or divesting the wrong asset) will not help to generate shareholder value.

The resolution asks BP to align its 2030 Scope 3 aims with Paris. We agree with ISS that this would require a wholesale shift in strategy, which we believe is unnecessary given the board has opined on Net Zero and already published its plan. Secondly, BP has no control over what global Scope 3 emissions should be under the Paris Agreement, as the world continues to emit carbon and the Scope 3 reduction will probably have to be steeper the nearer society gets to 2030. This burden is unfair, particularly as BP must make long-cycle investment decisions and its downstream Scope 3 emissions will be significantly influenced by future developments in energy and transportation infrastructure and government policy.

Resolution outcome: Failed

AMBEV

We voted against the re-election of two directors and against the remuneration policy. The first director is the Chair of the foundation that makes up part of the majority shareholding group. Although we feel the foundation should have board representation, the director has been on the board for 24 years and chairs three of the four board committees. Both these factors go against best governance practices. The second director we were concerned about is also the CEO of another business and sits on two other boards. We agree with ISS's assessment that the director is over-boarded and feel there are questions to be raised about his management track record.

Resolution outcome against directors: Passed

Resolution outcome of remuneration: Passed

AMAZON

A total of 18 shareholder proposals were on the slate at the 2023 AGM, three more than 2022. For the most part, we voted in line with ISS. We supported the request for a report on customer due diligence to determine whether customers' use of Amazon's products and services with surveillance, computer vision or cloud storage capabilities contributes to human rights violations. Such a report may highlight some concerning issues that, if addressed, could protect Amazon from reputational damage in the future. We also supported the request for a report on the impact of climate change strategy consistent with Just Transition guidelines. Disclosure can help shareholders evaluate the effectiveness of the management of environmental and social risks. Other disclosures we supported included a report on climate lobbying, a report on gender and racial pay gaps, a third party audit on working conditions, a report on efforts to reduce plastic use and a study on the risks associated with the use of the company's Rekognition computer vision platform.

We did not support requests for a report on climate risk in retirement option plans, greater disclosure on government requests, a tax transparency report, a cost benefit analysis of diversity, equity and inclusion programmes, amendments to the company's bylaws, pay disparity disclosures, an animal welfare standards report or establishing a public policy committee.

We voted against two directors whose tenure breaches our internal threshold. Over-tenured directors can lead to entrenchment, which in turn can compromise independence and diminish a board's effectiveness in representing the interests of shareholders. We voted in favour of ratifying the named executive officers' compensation, against ISS's recommendation. Our view is that the company does not want employees to focus on short-term returns or discrete criteria at the expense of long-term growth and constant innovation and reinvention, a position we endorse.

Shareholder resolutions outcome: All 18 failed

Modern slavery: confronting the Lernaean Hydra

In 2013, Rana Plaza, an eight storey clothing factory in Bangladesh, collapsed, killing 1,134 workers. This event was a tragic reminder to society in general and to shareholders in particular of the risks – including human rights and labour risks – embedded in extended supply chains. The disaster catapulted the S in ESG into the spotlight. These social factors include human capital, education and training, fair pay, inequality, working conditions, labour rights, health and safety, community engagement and many more.

The pernicious evil of modern slavery takes many forms. The most prevalent are forced labour, human trafficking and bonded labour.

Forced labour is any work or services participants are forced to perform against their will, often under the threat of violence. Human trafficking refers to the use of violence, threats or coercion to transport, recruit or harbour people in order to exploit them for a wide range of purposes such as forced prostitution, labour, criminality, marriage or organ removal. Bonded labour is the world's most widespread form of slavery: the Global Estimates of Modern Slavery (2022) report estimates it has ensnared almost 28 million people worldwide. Under bonded labour, people trapped in poverty may borrow money or hand over personal assets in exchange for a job. They then become locked into a fixed-period contract to pay off the loan or regain their assets, often working in appalling conditions at the mercy of employers.

Modern slavery has implications for society and economies at large. Furthermore, the possible health consequences, limited educational opportunities and lack of regulation often spill over to victims' families and wider communities, binding them in a cycle of slavery which can last for generations.

But it can also have severe implications for a company's market value, beyond the reputational harm. Companies found to have used forced labour may experience practical problems, such as sudden supply chain disruptions as they look for alternative sources, leading to higher costs and delays. Moreover, they may face lawsuits from workers in the supply chain seeking redress for poor pay and conditions.

Here are just two notable recent examples. In February 2024, Porsche, Bentley and Audi cars were impounded in US ports after a supplier to their parent group, Volkswagen, discovered a Chinese subcomponent in the vehicles that breached laws against forced labour. In 2022, workers from a Thailand-based clothing factory lodged a case against Tesco in the UK, alleging effective forced labour, as they were working 99 hour weeks for low pay in appalling conditions. The UK's Modern Slavery Act 2015, one of many such laws and regulations globally, allows legal cases to be lodged against companies in their country of domicile.

Ruffer does not tolerate modern slavery, in any form, in its supply chain or its business activities.

As part of our ESG due diligence and stewardship processes, we consider modern slavery as one of many human rights and labour-related risks that require policy, oversight, management and reporting. However, investigating modern slavery in supply chains is challenging due to intricate and lengthy supply chains, our resource constraints, companies' concealment efforts and the various forms modern slavery takes, each requiring a distinct analytical approach.

Ruffer relies upon data and insights provided by MSCI ESG Research and uses the SASB frameworks to identify material factors which may impact company value. Companies' annual and sustainability reports provide insight into if and how companies consider modern slavery as part of their business operations, including whether they see the issue as a material risk.

We also engage with companies where necessary on this topic. For example, when we picked up on a report by an NGO which claimed Sony was using forced labour in its supply chain, we sought a response from the company. Sony provided reassurance by stating it had audited its suppliers and found no evidence of unacceptable practices – which does not mean with 100% certainty that its supply chain is free of modern slavery.

Similarly, when MSCI downgraded its rating on Volkswagen for its alleged involvement in hiring Uyghurs as forced labour in China, we questioned the car maker. We have long held Volkswagen in the portfolio and have engaged with the company over many years. This dialogue continued in 2023, when we met with Volkswagen's investor relations team to voice our concerns about governance and its extensive supply chain. We discussed at length the responsible sourcing of critical raw materials and how Volkswagen keeps its supply chain monitored.

With over 60,000 suppliers, Volkswagen has a certification process for all of them but focuses its efforts on those providing most of the purchasing volume. We were concerned about ongoing allegations of the use of forced labour, specifically the hiring of ethnic minorities in China through so-called labour transfer programmes. In early 2023, MSCI deemed the issue a failure to comply with the UNGC, which can have negative ramifications. Although Volkswagen confirmed an internal review had been conducted, MSCI always requires a third party audit before revisiting its assessment. Given China's strategic importance to Volkswagen, the company is sensitive to maintaining good relations with the Chinese authorities and so is unlikely to submit to a third party assessment. We discussed the company's wider relationship with MSCI and other ESG ratings agencies and its intention to provide enhanced disclosure.

The gold standard for company activities related to modern slavery emphasises proactiveness and proper procedure. Nevertheless, it is important to recognise the difficulty in regulating and controlling modern slavery, given varying labour laws and standards across the world, globalisation and the lack of a clear chain of custody on intermediate products. Rising international regulatory pressure, including making company directors liable for malpractice, should aid moves towards ending modern slavery.

We recognise that addressing modern slavery through portfolio holdings is a challenge for investors. However, each of our engagements on forced labour in 2023 helped to sharpen our due diligence process, and we look forward to enhancing our capabilities in this area as we further expand our social metrics.

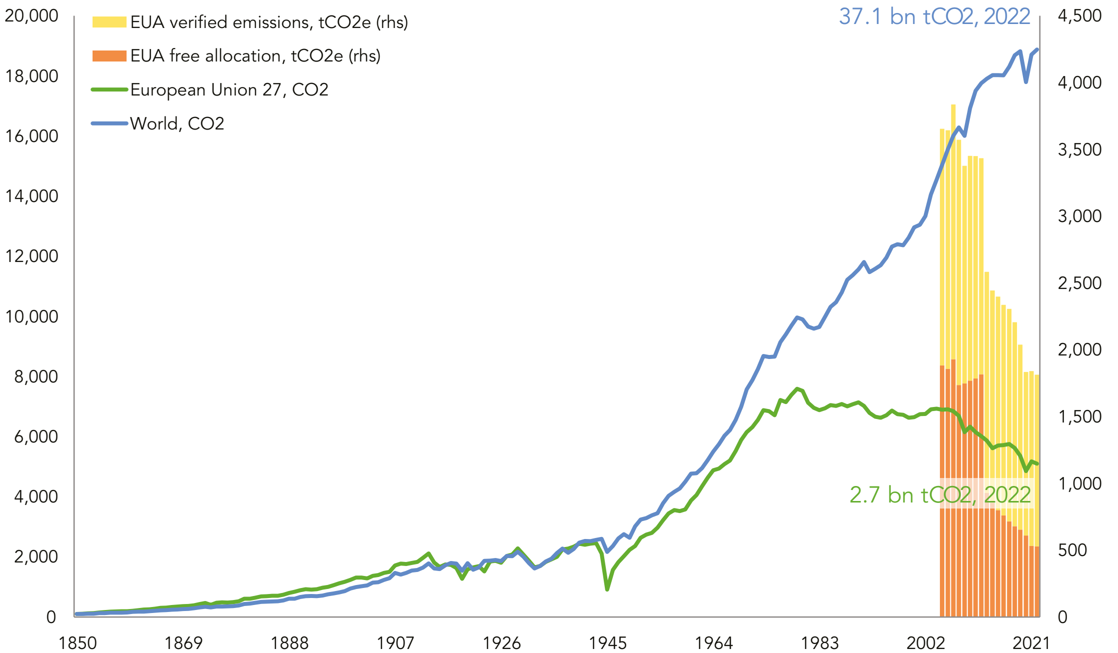
CBAM: levelling the global carbon emissions playing field?

The European Union (EU) has long seen itself as a leader in setting a price for – and thus helping to reduce – carbon emissions. Its Emissions Trading System (ETS), introduced in 2005, was the world's first attempt at using the market to put a price on carbon, theoretically enabling companies – and society – to cut greenhouse gas emissions cost-effectively. However, the EU issued free emissions allowances to compensate and protect manufacturers operating within its borders and manage the risk of carbon leakage – that is, when companies transfer production (along with employment and investment) from the EU to countries with laxer emission regulations and lower environmental costs. These allowances arguably allowed many carbon-intensive industries to keep operating within the EU.

Now, the EU is going a regulatory step further. The transitional phase to its new Carbon Border Adjustment Mechanism (CBAM) regulation started on 1 October 2023 and runs until 31 December 2025. CBAM aims to address carbon leakage more effectively by putting a price on carbon emissions that originate outside the EU's borders. And to do so without being deemed a barrier to trade, so as to comply with World Trade Organization rules.

During this transition phase, CBAM will apply to imports of certain goods and selected precursors whose production is carbon intensive and at greatest risk of carbon leakage: cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. Then, from 1 January 2026 if all goes to plan, EU importers of goods covered by CBAM will buy and surrender CBAM certificates corresponding to the volume of emissions. The price of the certificates will be calculated on the weekly average auction price of EU ETS allowances expressed in euros per tonne of CO_2 emitted. By 2030, the EU aims to extend the CBAM to all sectors covered by the ETS, whose current phase expires then.

THE SCALE OF THE PROBLEM: WHILST EU27 CARBON EMISSIONS HAVE FALLEN, ANNUAL WORLD EMISSIONS MARCH UPWARDS



Source: Ruffer LLP, Our World in Data, EU Emissions Trading System

If CBAM expands to greater coverage of sectors and greenhouse gases, the issuance of free allowances should contract. As the quid pro quo, EU companies will be able to deduct from their CBAM certificates any carbon price paid in the source country. The combined effects should be to spread carbon pricing, to increase investment in decarbonisation projects (along the supply chain) and to ensure companies account for a meaningful carbon price in their financial statements. Ultimately, it's about implementing the EU's target of reducing net greenhouse gas emissions by at least 55% before 2030.

Whilst CBAM may be the tip of the iceberg, the bulk lurking below the water could be the proposed EU Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD). Collectively, these three instruments address the need for supply chain engagement, disclosure and accountability. After all, if importers need to pay for embedded emissions, the incentive is theoretically on them to calculate, disclose and certify the carbon footprint of existing, and alternative, suppliers. CBAM drives the engagement, whilst CSRD and CSDDD drive the reporting and disclosure.

Our analysis of CDP disclosure suggests that many EU companies have a long way to go in reporting their carbon footprints. Currently, we see three types of emissions calculation: spend-based, which rely on the reporting company's expenditure data and representative emission factors from approved external sources; average data, which apply industry-average emission factors to the quantity of purchased materials; and supplier-specific, where the reporting company uses data provided directly by the supplier.

Supplier-specific (or primary) data is potentially the most accurate and the most useful for evaluating the performance of suppliers relative to their peers and meeting the EU's requirements. As an incentive (or perhaps a deterrent), the EU plans to set default emission values at a mark-up over the average emission intensity of each exporting country, with a stick of fines or penalties for companies found to be misrepresenting their emissions profile.

There is a clear need for enhanced collaboration with suppliers to collect and improve the emissions data that feed into Scope 3 footprints. Although CBAM compliance is the immediate goal, wider adoption of the supplier-specific methodology should intensify competition in the supply chain. If EU importers, armed with a clearer understanding of relative product carbon footprints, think about switching suppliers, all upstream actors will face increasing pressure to invest in emission reduction. More reliable, more differentiated emissions data might also encourage customers of EU importers to elevate environmental credentials in their procurement decisions.

Of course, CBAM may result in unpredictable effects – for good or ill – on macro-economic indicators, trade flows, competitive response and positioning, and commodity prices. Governments outside the EU may feel compelled to capture the carbon penalty domestically rather than allow payments to flow into the EU. This could lead to a proliferation of carbon pricing regimes among EU trading partners. Or there could be a significant backlash against the EU on the grounds of protectionism.

But, as we have argued here, the micro implications are equally interesting. CBAM should spur improved carbon accounting. And this may raise the stakes for decarbonisation both within the EU, especially given meaningful financial penalties, and beyond, as governments, suppliers and purchasers pursue virtuous strategies contributing to cleaner, more equitable and more transparent value chains.

Looking ahead

We have set ourselves ambitious priorities for the years ahead, covering integration, stewardship and our climate strategy.

1. CLIMATE-RELATED

a. NZAM: develop our assessment of companies' Net Zero alignment and analysis and interrogation of a company's willingness and ability to achieve Net Zero by 2050.

b. TCFD: develop our capabilities across additional asset classes and further refine qualitative responses for the purposes of portfolio resilience, risk and return. A short to medium-term focus will be on sovereign bonds, building on our existing proprietary tool to enhance our capabilities.

c. Risk management: improve climate analytics and reporting, deepening the analysis we do with our risk management process. Use macro and micro insights to cross-pollinate investment decisions.

2. ENGAGEMENT

a. Embed our 'objectives, outcomes, next steps' construct in all our engagements.

b. Focus on identifying, and engaging upon, key ESG factors which if they materialise could destroy company value or, conversely, factors that could release hidden company value. Develop a balance between short-term and long-term themes.

c. Further develop the feedback mechanism of our engagement approach with the inclusion of post-engagement analysis and reviews.

3. VOTING

a. Shareholder proposals: develop a model or framework – tied into engagement and escalation – which guides our voting decisions on topics related to ESG.

4. SOCIAL VALUE AND FACTORS

a. Expand our social metrics into basic due diligence analysis and develop how we assess their impact on value in our enhanced ESG due diligence work.

5. NATURE AND BIODIVERSITY

a. Develop our understanding of TNFD and evaluate current market capabilities and initiatives in these areas as we work towards producing a TNFD related report.

b. Further embed nature and biodiversity metrics into due diligence to help us determine company value dependency on nature.

Appendix
Summary of independent engagement

Company	Topics	Topics (consolidated)
ArcelorMittal	Employee health and safety Data disclosure Energy transition Climate target setting Strategy/purpose Reporting Human labour rights Corporate and capital strategy Health and safety	Environment Social Governance Strategy, financial and reporting
Glencore	ESG rating Raw materials sourcing	Social Strategy, financial and reporting
Marks & Spencer	Greenhouse gas emissions Board effectiveness	Environment Governance
Hipgnosis Songs Fund	Board effectiveness	Governance
Coty	Remuneration	Governance
Ryanair	Energy transition Data disclosure	Environment Strategy, financial and reporting
Boohoo	Raw materials sourcing	Social
Balfour Beatty	Succession planning	Governance
Grifols	Employee benefits and compensation	Social
Kinovo	Remuneration	Governance
Suncor Energy	Health and safety Biodiversity Waste management Risk management Public health Human labour rights	Environment Social Governance Strategy, financial and reporting

Company	Topics	Topics (consolidated)
Billington Holdings	Remuneration	Governance
Bakkavor Group	Corporate and capital strategy	Strategy, financial and reporting
British American Tobacco (BAT)	Risk management Biodiversity loss Waste management Public health Human labour rights	Environment Social Strategy, financial and reporting
Epwin Group	Greenhouse gas emissions Corporate and capital strategy	Environment Strategy, financial and reporting
Essentra	Corporate and capital strategy	Strategy, financial and reporting
ExxonMobil	Strategy/purpose Energy transition Scenario analysis Board structure and independence Greenhouse gas emissions	Environment Governance Strategy, financial and reporting
Kinross Gold	Human labour rights biodiversity loss Energy transition	Environment Social
On the Beach	Remuneration	Governance
Perseus Mining	Data disclosure Energy transition	Environment Governance
Swire Pacific	Corporate and capital strategy Shareholder rights	Governance Strategy, financial and reporting
Watches of Switzerland	Corporate and capital strategy	Strategy, financial and reporting
WisdomTree	Greenhouse gas emissions	Environment
Admiral Group	Remuneration	Governance
Ambev	Board effectiveness	Governance
Ashmore Group	Remuneration	Governance
BP	Energy transition Human labour rights Corporate and capital strategy	Environment Social Strategy, financial and reporting

Company	Topics	Topics (consolidated)
Dassault Aviation	Board effectiveness Greenhouse gas emissions ESG rating	Environment Governance Strategy, financial and reporting
DuPont	Reporting Corporate and capital strategy	Strategy, financial and reporting
Jet2	Board effectiveness Energy transition Corporate and capital strategy Remuneration	Environment Governance Strategy, financial and reporting
JDE Peets	ESG rating Board effectiveness Raw material sourcing Remuneration	Social Governance Strategy, financial and reporting
M&T Bank	Data disclosure ESG rating Risk management	Governance Strategy, financial and reporting
Noble	Energy transition Conduct, culture and ethics Greenhouse gas emissions Human labour rights Climate target setting ESG rating Remuneration Data disclosure	Environment Social Governance Strategy, financial and reporting
Pfizer	Remuneration Reporting Lobbying Workforce diversity Board effectiveness Greenhouse gas emissions	Environment Social Governance Strategy, financial and reporting
Prosegur Cash	ESG rating Corporate and capital strategy	Strategy, financial and reporting
Resona	Workforce diversity Energy transition Corporate and capital strategy	Environment Social Strategy, financial and reporting

Company	Topics	Topics (consolidated)
Shell	Energy transition Remuneration Board effectiveness Climate target setting Corporate and capital strategy	Environment Social Governance Strategy, financial and reporting
Strix Group	Energy transition	Environment
Tenaris	Climate setting Energy transition ESG rating Corporate and capital strategy	Environment Strategy, financial and reporting
Velocys	Greenhouse gas emissions Stakeholder management Energy transition Strategy/purpose	Environment Governance Strategy, financial and reporting
Vivendi	Board effectiveness Remuneration ESG rating Biodiversity loss Human labour rights Climate target setting Privacy/data security Reporting	Environment Social Governance Strategy, financial and reporting
Volkswagen	Remuneration ESG rating Board effectiveness Workforce diversity Energy transition Human labour rights	Environment Social Governance Strategy, financial and reporting
Westgold Resources	Corporate and capital strategy	Strategy, financial and reporting
Yara International	Energy transition Greenhouse gas emissions Remuneration	Environment Governance
AcadeMedia	Conduct, culture and ethics	Social

Company	Topics	Topics (consolidated)
Bank of Ireland	Remuneration ESG rating Board effectiveness Reporting	Governance Strategy, financial and reporting
Castings	Succession planning Corporate and capital strategy	Governance Strategy, financial and reporting
Laboratorios Farmaceuticos (Rovi)	Succession planning Corporate and capital strategy	Governance Strategy, financial and reporting
MusicMagpie	Corporate and capital strategy	Strategy, financial and reporting
NEC	Board effectiveness	Governance
Nexus Infrastructure	Board effectiveness Corporate and capital strategy	Governance Strategy, financial and reporting
Orix	Workplace diversity programmes	Social
Rohm	Board diversity Board effectiveness	Governance
Rubis	Corporate and capital strategy	Strategy, financial and reporting
Shin-Etsu Chemical	Board effectiveness Board diversity	Governance
Simplex	Board effectiveness	Governance
Sony	Human labour rights	Social
Titan Cement	Energy transition	Environment
UPM	Energy transition	Environment
Van Elle	Corporate and capital strategy	Strategy, financial and reporting

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Joined Ruffer in 2012 as Risk and Attribution Manager, then worked on one of Ruffer's specialist funds for eight years, before moving to the Responsible Investment team. He holds a Master's in international financial analysis from Newcastle University and is a CFA charter holder.

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Joined Ruffer in 2021 from an ESG Investment Specialist role at the BP Pension Fund. Previous roles include Investment Director at Project Snowball, Senior Analyst, Responsible Investment at USSIM and Portfolio Manager, Equities at VicSuper, Australia. Has a Bachelor of Economics and a Bachelor of Science (forestry) (ANU), a Masters of Environment (University of Melbourne), a Graduate Diploma in Applied Finance & Investment and is a Member of the Institute of Directors.

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FURTHER INFORMATION

The following documents are available at ruffer.co.uk/responsible-investing

- Quarterly responsible investment reports
- Responsible Investment Policy
- Our response to the UK Stewardship Code
- Climate change framework
- Our voting summary
- A selection of articles on responsible investment topics

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