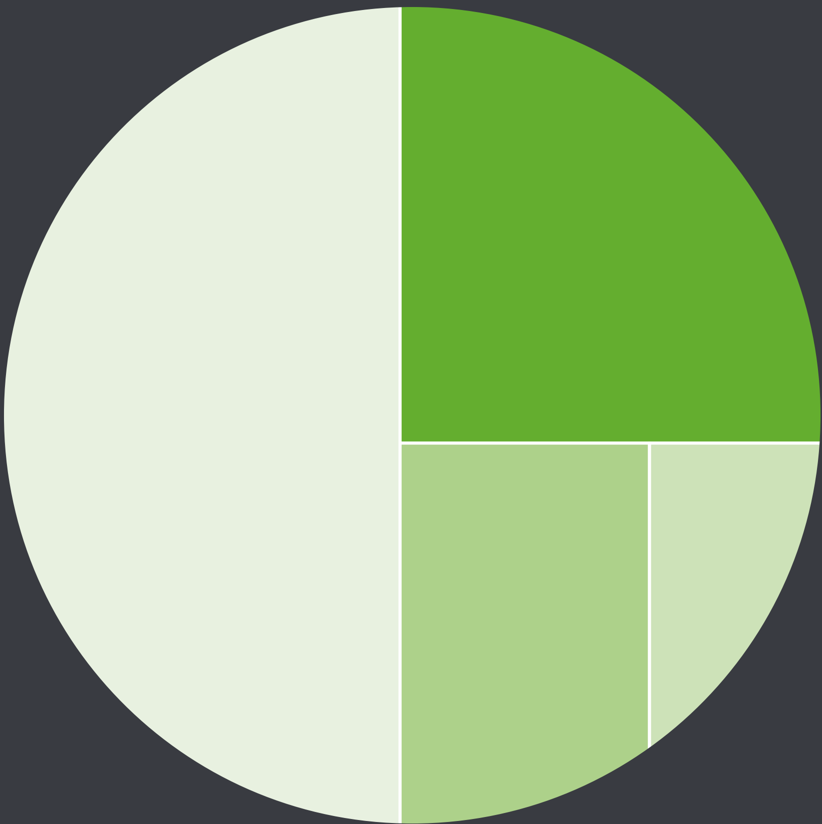
Responsible Investment Report 2022



CHARITY ASSETS TRUST

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Responsible investment at Ruffer

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

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

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

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

HOW WE DO IT

INTEGRATION

ESG risks and opportunities are considered as part of our investment process.

ENGAGEMENT

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

VOTING

Equity investing comes with rights and responsibilities.

We take this seriously.

We are signatories and supporters of

A note from the fund managers

WE ARE COMMITTED TO BEING GOOD STEWARDS OF OUR CHARITY CLIENTS' ASSETS.

So integrating ESG considerations into our investment research and engaging actively with companies are cornerstones of our process.

In conjunction with Ruffer's firmwide ESG approach, the Charity Assets Trust invests in line with its comprehensive responsible investment policy. The policy incorporates a range of ethical restrictions on controversial sectors as well as committing us to engaging with companies that are deemed laggards by our ESG ratings provider. It ensures we continue to manage the fund to the standards that are expected by our clients' stakeholders. In 2022 we added a restriction on high interest rate lending, bringing the fund's exclusionary policy in line with other charitable funds.

A clear theme runs through this report: the energy transition and how we can achieve a Net Zero environment. We are proud as a company to have signed up to the Net Zero Asset Managers initiative (NZAM) in March 2022. We discuss NZAM and our commitment in more detail in the next section of this report.

Whilst the destination is known, the path each investment manager follows will be different. At Ruffer, we have taken an approach in which engagement, rather than exclusion, will be crucial in allowing us as a society to reach these goals. Only by being brave and tackling the sectors with the hardest emissions to abate will we produce the step change required to hit our shared 2050 goals. Although we are confident that this approach aligns our clients, our investors and our portfolio companies behind this shared goal, we accept it is different from the approach many others are taking. Over the next few pages, we hope to explain why we have taken this approach and why we believe it can achieve the results we seek.

Aside from NZAM, the report details how else we monitor the fund, including ESG ratings and the constituents' carbon footprints. Further stewardship activities addressing ESG issues are also discussed. More insights into our engagement approach within the firm can be found in the 2022 Stewardship Report.

Please contact us if you have any questions or would like to continue the discussion.

Jos North, Jenny Renton, Ajay Johal

In focus – NZAM

WHAT IS THE NET ZERO ASSET MANAGERS INITIATIVE?

In its own words, “The Net Zero Asset Managers initiative (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 are over 300 signatories, with $60 trillion in assets under management.

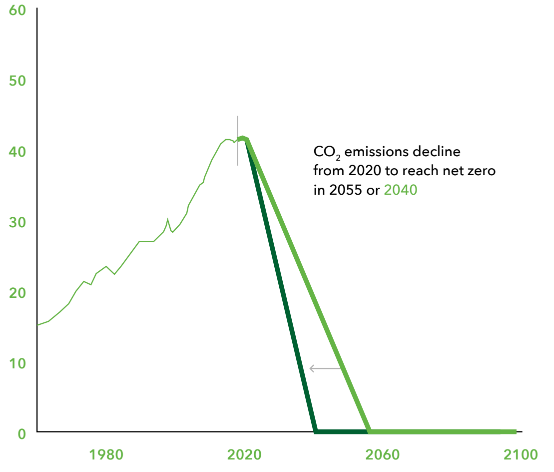
Signatories commit to targeting Net Zero portfolio emissions by 2050 or sooner, supported by interim targets consistent with a fair share of the 50% reduction in emissions required by 2030. Signatories work with their clients to achieve real economy emissions reductions.

WHY HAS RUFFER BECOME A SIGNATORY?

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

FIGURE 1
STYLISED NET GLOBAL CO² EMISSION PATHWAYS

Billion tonnes CO_2 per year ($GtCO_2$/yr)



Source: Intergovernmental Panel on Climate Change (IPCC) 1.5°C scenarios, Institutional Investors Group on Climate Change (IIGCC)

Figure 1 highlights the scale of the challenge – and the pace of emissions reduction required for different pathways towards the 2050 target. The drive to decarbonise will have profound implications for the investment universe. This disruption will create numerous risks and opportunities as asset prices respond to the pressures of a carbon-constrained world and an increasingly inhospitable environment.
NZAM provides a framework for managing these risks and capturing these opportunities that is well aligned with Ruffer’s approach. It also gives a clear set of targets which we can use to communicate our approach to Net Zero investing and our clients can use to assess our progress.

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

WE PRIORITISE REAL WORLD EMISSIONS REDUCTION OVER PORTFOLIO EMISSIONS OPTIMISATION.

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.

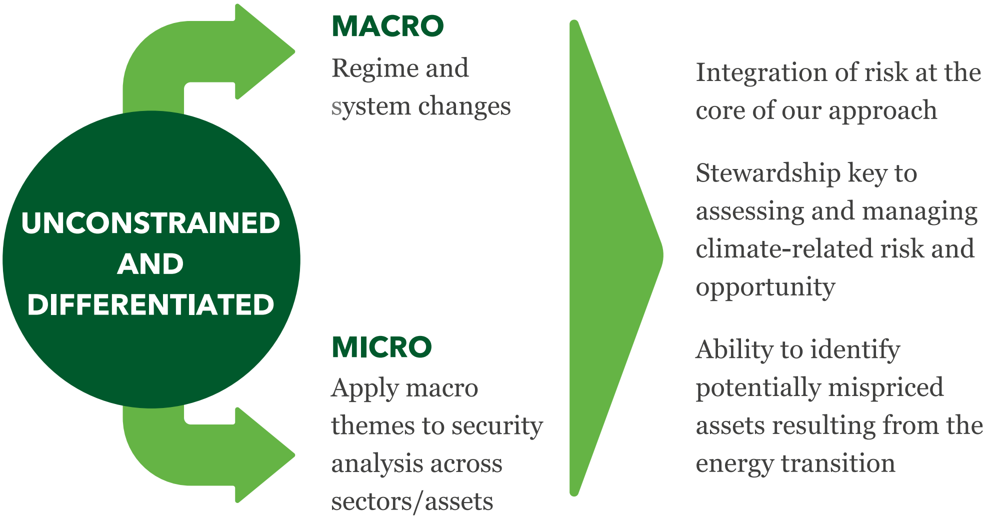
This approach is very different to building a green portfolio. Investing in a portfolio of low emission stocks and avoiding carbon intensive sectors may well achieve superficial decarbonisation within the portfolio. But it may have little or no impact on the lowering of emissions in the real world.

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 their 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. Blanket divestment is not the answer. We must engage with companies and issuers in order to catalyse the capital flows and innovation required to decarbonise the economy.

OUR EDGE?

The strength of Ruffer's investment approach has always been the combination of a top-down macro understanding of potential regime/system changes with bottom-up research into the most appropriate securities to protect against and benefit from these changes (Figure 2). 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.

FIGURE 2
COMBINING MACRO AND MICRO ANALYSES IS KEY TO OUR INVESTMENT STRATEGY



Equally crucial is that our approach is unconstrained. This means we can factor in how far climate risk is priced for a given security. We can also explore different ways of protecting financial capital from climate risk, even whilst pushing for – and finding underappreciated drivers of – rapid decarbonisation.

Done well, this can help to drive the energy transition, manage climate risk in our portfolio and capture opportunities for our investors as best-in-class companies drive the innovation required to decarbonise.

WHAT THIS MEANS FOR OUR TARGETS

When setting our NZAM targets, we have focused on ensuring they support real world emissions reduction and the ability to capture underappreciated transition opportunities, alongside our strong programme of engagement.

This has led us to prioritise three key targets:

1. **ALIGNMENT** – 80% of the assets in scope to be Net Zero aligned, or in the process of aligning, by 2030
2. **ENGAGEMENT** – by 2025, at least 70% of financed emissions in material sectors to be either Net Zero aligned or the subject of stewardship action, with that figure rising to 90% by 2030
3. **SHORT-TERM EMISSIONS REDUCTION** – a 50% reduction in portfolio emissions intensity by 2030, which crucially will be rebased to the portfolio at any given time to prevent achievement through portfolio optimisation and focus instead on real world emissions reductions

The prioritisation of the alignment target keeps focus on whether the companies we hold are themselves aligning with Net Zero emissions, rather than a simple focus on reducing the emissions of the portfolio (which will change with asset allocation). Complementing this with an engagement target means our stewardship activities will be deployed to hold companies accountable for progress towards their real-world emissions reduction plans.

In our view, achieving our alignment and engagement goals should result in short-term reductions in emissions. Rebasing our emissions reduction target means that it assesses the emissions reduction performance of the portfolio we are holding at any moment in time. This is crucial to account for our active approach, to prevent portfolio optimisation through simply selling the highest emitting holdings and to ensure we can invest in best-in-class companies that are driving the energy transition, even if their emissions starting point is higher.

Figure 3 gives the complete list of targets we will be reporting against as part of our NZAM commitment.

If you would like more information on any of the above, please speak to your usual Ruffer contact.

FIGURE 3
RUFFER'S TARGETS

#	Target name	Proposed target
1	% of assets aligning to transition pathway	80% of assets in scope aligned or aligning by 2030
2	Engagement threshold	By 2025, 70% of financed emissions in material sectors will be Net Zero or aligned with a Net Zero pathway, or the subject of engagement and stewardship actions. Increases to at least 90% by 2030
3	2030 emissions target	50% reduction in emission intensity, adjusting the baseline to reflect shifts in asset allocation
4	% of assets in scope	Equities and corporate bonds aggregated across all Ruffer funds, which have historically ranged between 20% and 60% of Ruffer's total AUM
5	Methodology used	Paris Aligned Investment Initiative Net Zero Investment Framework, including Science Based Targets initiative, Transition Pathway Initiative and proprietary Ruffer methodologies for the 'assets aligning' component
6	Scope of emissions included	Scope 1 and 2 – included Scope 3 – not included (for targets 2 and 3), but considered in the assessment of transition risk and alignment
7	Fossil fuel policy	Unconstrained: a focus on real world emissions reduction which requires engagement with the hard-to-abate sectors
8	Climate solutions target	A focus on nascent climate solutions, recognising that many are to be found in difficult sectors not captured by taxonomy
9	Emissions from Ruffer LLP operations	50% reduction in carbon emissions intensity from operations by 2030 (including Scope 3)

Case study

RYANAIR

Achieving these goals will require a different lens through which to judge investments. One which looks beyond headline carbon intensity metrics or targets and analyses companies' willingness – and ability – to meet the needs of the energy transition. This approach can identify opportunities that would be overlooked by an approach focused solely on a linear reduction in headline portfolio emissions.

One example of how we seek to analyse and then engage with a company on its Net Zero plans is Ryanair. The aviation industry is often discounted by Net Zero investors as too 'dirty' to invest in.

However, our analysis of and engagement with Ryanair led us to a different view. We believe that the aviation industry currently has a strong transition incentive but limited green solutions – represented on Figure 4 by high customer demand but low company capabilities. Within the sector, Ryanair is in our view amongst the best placed to address the required transition (Figure 5) – a measure sometimes ignored when focusing solely on a company's existing emissions or targets.

Our engagement will focus on ensuring Ryanair embraces its leadership role in the aviation industry's transition and does more to incentivise green innovation in the sector's ecosystem – that is, shift itself up the y axis of Figure 5 in order to help propel the aviation industry along the x axis of Figure 4.

This could help to transform Ryanair from supposed climate villain to transition hero. It could also help us meet our goals of furthering the energy transition and managing climate risk, whilst profiting should the market reward the company's success.

FIGURE 4
INDUSTRY TRANSITION ASSESSMENT

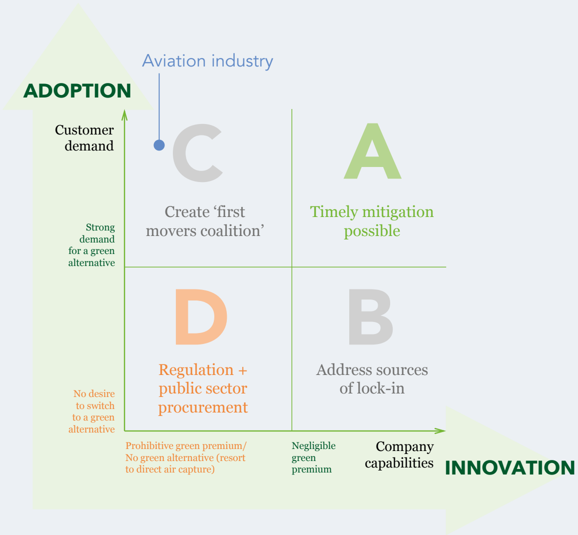
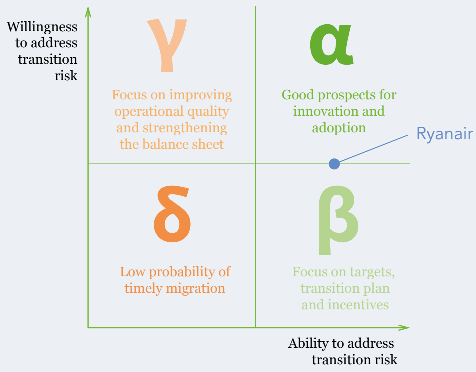


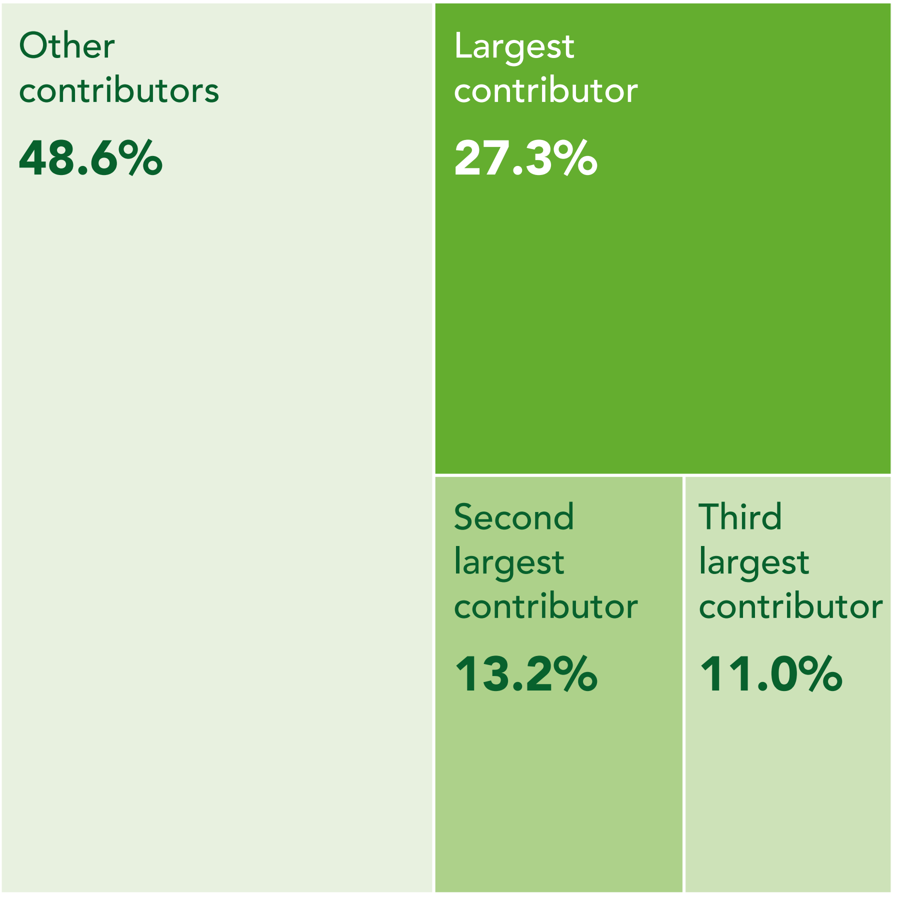
FIGURE 5
COMPANY'S TRANSITION PROSPECTS



The fund's carbon footprint

One of the tools we use to inform our approach to carbon-intensive businesses, including fossil fuel companies, is monitoring the carbon footprint of the fund. We calculate the weighted average carbon intensity of the fund on an ongoing basis. This metric, recommended by the Task Force on Climate-related Financial Disclosures, measures a portfolio's exposure to carbon-intensive companies. It allows for decomposition and attribution analysis, meaning that we can identify the largest company contributors to this metric. We use this to inform our management of the fund and our subsequent engagements with companies.

FIGURE 6
WEIGHTED AVERAGE CARBON INTENSITY



Source: MSCI ESG research, Ruffer calculations. Data as at 31 December 2022

LARGEST SINGLE CONTRIBUTOR

In terms of weighted average carbon intensity, BP was the largest contributor within the fund in 2022. We have spent time earlier in the report highlighting how, in our view, energy companies will be crucial in allowing us to transition towards a Net Zero economy by 2050.

At the beginning of February 2023, BP announced its fourth quarter 2022 results alongside an update on strategic progress. Media reports claimed that the announcement represented a row back on renewables and a shift back towards oil and gas production. We do not at this stage, however, think that the announcements made by BP are inconsistent with a Net Zero pathway. Crucially, BP has not backed away from its Net Zero pledge but merely adjusted its capital expenditure pathway towards achieving it. The flexibility to react to external events and adjust accordingly will be crucial to delivering a value accretive, and therefore sustainable, transition.

The energy transition will require significant energy, much of which will unavoidably be fossil fuel based. BP balances three critical attributes of the energy system: security, affordability and sustainability. Geopolitical events over the past year have highlighted the importance of supporting companies that seek to address all three attributes in delivering a successful transition.

We met with the company's CFO and new head of the low-carbon energy business immediately following the results and challenged them on the main concerns raised in media reports. BP confirmed that it is aiming to marginally extend the life of its existing oil and gas assets to meet demand triggered by Russia's invasion of Ukraine. It is doing so in a resource and energy efficient manner by utilising existing machinery and fields, rather than investing in intensive new projects. Companies such as BP are well placed to plug energy gaps without contravening a commitment to long-term decarbonisation and, in doing so, to smooth the volatility in energy prices that could otherwise derail an effective transition.

BP's announcements included an $8 billion increase in low-carbon spending over the next eight years. What caught 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 Dotzenrath, the new head of BP's low-carbon business. The former head of RWE Renewables will be focusing on higher margin low-carbon sectors, including green hydrogen, biofuels and vehicle charging. We are therefore supportive of BP's continuous reassessment of how to deploy its significant low-carbon investments ($30 billion by 2030) to ensure the most attractive returns as it decarbonises its energy production.

Overall, the announcements suggest to us that BP is taking a pragmatic and flexible approach to achieving its reiterated goal of a Net Zero transition. We think the events of the past year have highlighted how important such characteristics will be to achieving decarbonisation in an increasingly volatile world. Our focus now is on continuing to develop a long-term engagement plan focused on ensuring that BP allocates capital with an eye on its ability to influence societal goals, with respect to the environment and beyond.

ESG ratings

The overall ESG rating ascribed by MSCI ESG Research to a company is just one of the additional responsible investment inputs we consider when assessing the merits of an investment case. It provides a quantitative proxy by which to measure improvement.

The rating is not absolute; rather, it is relative to the standards and performance of a company's industry peers. It is used to help ensure that as far as possible the fund invests in companies which are considered 'best in class' within their sector. Additionally, there are some portfolio companies that are not rated by MSCI; these are primarily our listed impact and energy investment trusts.

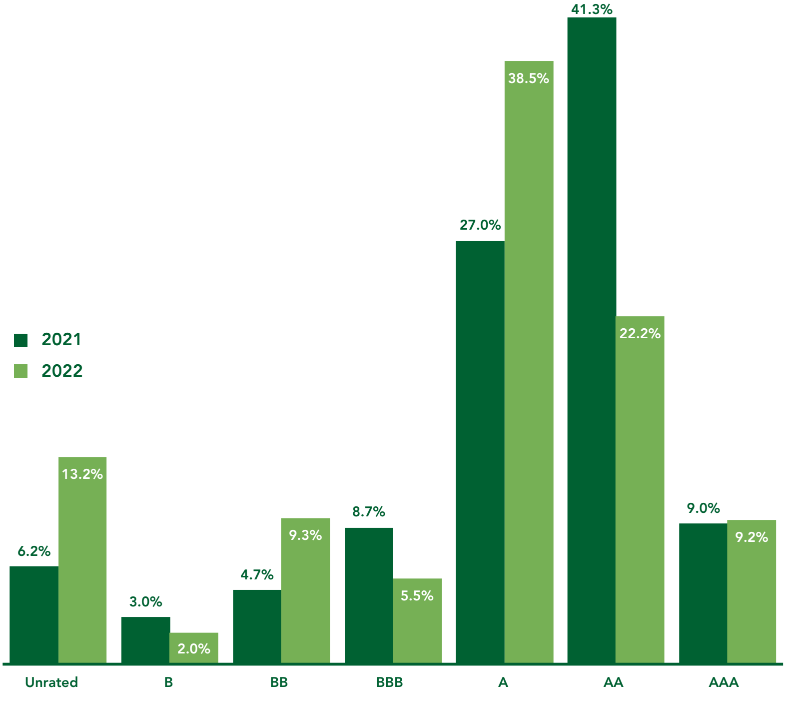
Crucially, we do not use this metric as a hard block. Rather, it is used as a flag to help guide our investment decision making and engagement activities. This allows us to do our own analysis on the investment case, rather than being entirely reliant on rigid metrics that may not reflect a company's evolution. Please see the next section for examples of this in action.

KEY CHANGES IN 2022

The ESG ratings of the portfolio remained broadly similar to the previous year. An increase in the number of UK listed trusts focusing on areas such as renewable energy storage solutions and social impact led to a higher weighting in 'unrated' stocks held within the fund.

FIGURE 7

ESG RATING OF HOLDINGS WITHIN THE CHARITY ASSETS TRUST



Source: MSCI ESG Research as at 31 December 2022. Totals may not equal 100 due to rounding.

Stewardship

Where an investment is held in a company with an MSCI ESG rating of B or CCC, or which fails to comply with the principles of the UN Global Compact, we are committed through our responsible investment policy to engaging with management teams to better understand the issues and encourage improvement.

The two companies held in the fund that were flagged by these metrics at the end of 2022 were Meta Platforms and Prosegur Cash, each of which has an ESG rating of B. We include in the following pages a summary of our engagement activities with the companies in question. More detail on our engagement with these companies – and our stewardship activities across the firm – can be found in our 2022 Stewardship Report.

META PLATFORMS

We voted against remuneration resolution as the company's awards remain discretionary and its incentive programmes lack objective performance metrics and quantified goals. Disclosure on individual performance assessments is not comprehensive, and the design allows for the assessment to have a potentially large impact on the final pay-out. Executives continue to receive very large equity awards that lack performance vesting criteria. Moreover, the CEO's and COO's security costs are exceedingly large and increasing each year. While security costs may be a necessary expense, the company does not provide a compelling rationale as to why the CEO's security costs dwarf those of his peers.

Resolution outcome: Passed

Follow on and next steps: We will look to discuss the matter further with management.

DIVERSITY EQUITY AND INCLUSION

We voted in favour of a resolution proposed at Meta Platforms to report on the risks associated with the use of concealment clauses in employment or post-employment agreements.

OTHER SOCIAL SHAREHOLDERS PROPOSALS

At Meta Platforms we supported three other shareholder proposals. One requested a report on charitable contributions, another an impact assessment on third party human rights, more specifically related to Meta's use of targeted advertising, and the last one a report on what measures there are in place to prevent child sexual exploitation online. Given the potential financial and reputational impacts of any controversies related to child exploitation on the company's platforms, we believe shareholders would benefit from additional information on how the company is managing these risks, including those associated with end-to-end encryption technologies.

PROSEGUR CASH

Issues: Health and safety, labour management, governance – board diversity, governance – majority shareholder

Ruffer engaged with Prosegur and Prosegur Cash before the 2022 AGM held in May 2023. Prosegur Cash is rated B by MSCI ESG Research, based upon a negative view on their health and safety and labour management records. Further, given the business model (handling cash, largely) and the countries in which it operates, MSCI ESG Research places a high exposure risk on the business. So, even without any past incidents, the business would be seen as high risk and, on MSCI's rating methodology, difficult, if not impossible, to rate highly. We discussed these issues with the company's management. MSCI has highlighted two cases, both dating back to 2015. One related to alleged market abuse, the other to an attack on the company which led to the death of four employees. Prosegur has confirmed that it has engaged with MSCI on both issues. On the former, Prosegur Cash says it has appealed against the decision, which remains pending. On the latter, it appreciates the seriousness of the event and notes that the majority owner was shocked by the attack on the company's people.

In our discussions, the company reiterated that one of the four pillars of its sustainability master plan relates to health and safety. This master plan is approved and monitored by the Board of Directors with support from the executive and management teams. Within health and safety, strategies include training on human rights and safety protection, consideration and care for work colleagues and driving training, given one of the key areas of concern is motor vehicle crashes. Prosegur Cash noted its armoured vehicles weigh upwards of nine tonnes. Other aspects of its plan cover environmental performance (including reducing greenhouse gas emissions), career development and good governance.

Ruffer will continue to engage with Prosegur Cash and the Group on topics including of capital allocation, aiming to enhance (and potentially release) value for shareholders over time.

Voting

It is Ruffer's policy to vote on all AGM, EGM and shareholder resolutions for all companies held in the Charity Assets Trust.

In 2022, we voted against management predominantly on issues relating to the independence and effectiveness of directors, audit-related resolutions and executive pay. We also used our voting power to supplement our engagement with companies on climate change and Net Zero targets and disclosures.

Examples of voting decisions are given overleaf, and more detail is available in our 2022 Stewardship Report.

	2020	%	2021	%	2022	%
Total items voted	**935**		**1072**		**1503**	
For	**837**	89.5	**982**	91.6	**1415**	94.1
Against	**71**	7.6	**79**	7.4	**87**	6
Abstained/withheld/other	**27**	2.9	**11**	1	**1**	0
Against management	**92**	9.8	**77**	7.2	**116**	7.7
Shareholder proposals	**29**	3.1	**34**	3.2	**45**	3.1

AMERICAN EXPRESS

Issues: Independence of board

We voted against management and in favour of a shareholder proposal to require American Express to have an independent Board Chair. We supported the shareholder resolution to have a separate Chair and CEO, which is consistent with industry best practices and Ruffer's policy.

BARCLAYS

Issues: Environmental – climate change

We met with Barclays several times over the last 18 months to discuss their climate strategy, existing targets, data analysis and the plans for setting new targets on a number of new sectors. We supported the group's climate resolution in 2020 and voted against a too-narrow Market Forces resolution at last year's AGM. The new progress reports, set out ahead of the Say on Climate vote, commit to targets and hurdles to be achieved as part of its membership of the Net-Zero Banking Alliance and the Alliance's headline 2050 target. We feel progress has been made in the context of our discussions with the group. Whilst certain elements remain unsatisfactory (including the phasing out of thermal coal financing and financing unconventional oil and gas), the overall policy, new targets and tracking warrant a vote for this resolution. Our engagement with the group on these issues continues.

TORII PHARMACEUTICAL

Issues: Governance – influence of parent

At the 2022 AGM, we voted in line with a number of shareholder proposals designed to increase the governance around the company, notably by reducing the influence of the parent company. Our votes, against management but for the shareholder proposals, were centred on preventing the appointment of parent company officials to the board, and pooling cash with the parent company. By voting with the shareholder proposal, and against management, we hoped to align management's policies with minority shareholders rather than the parent company.

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About Ruffer

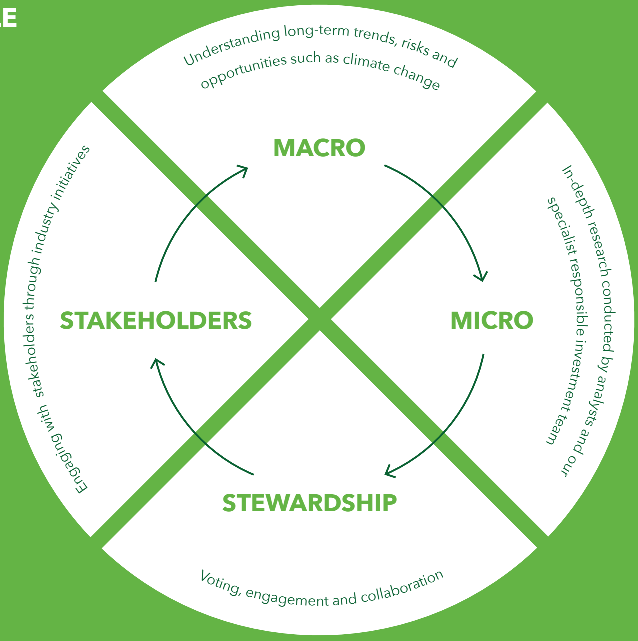
OUR AIM IS TO DELIVER CONSISTENT POSITIVE RETURNS – WHATEVER HAPPENS IN FINANCIAL MARKETS.

To invest well, we need to take on risk. With risk comes great responsibility. Our preoccupation is with not losing money, rather than charging headlong for growth. It's by putting safety first that we have made good money for our clients. Through boom and bust. For over 28 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value.

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

ESG factors form one part of our fundamental analysis. We have a collaborative research process between the research analysts, members of the responsible investment team, and responsible investment specialists. To fulfil our duty to act as responsible stewards of our clients' assets, we use our judgement to determine when to engage and how to vote at shareholder meetings to best protect the economic interests of our clients, while remaining cognisant of the impact on all stakeholders. Engagement with the companies we invest in not only gives us an opportunity to deepen our understanding of the business, but also is an effective tool to achieve meaningful change.

OUR RESPONSIBLE INVESTMENT FRAMEWORK



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