Ruffer LLP

Responsible Investment Policy

OCTOBER 2023

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About Ruffer

Ruffer LLP is an active investment manager with an absolute return strategy.[1] Since our inception in 1994, we have kept unchanged our two investment objectives

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

We invest in listed equities, conventional and inflation-linked bonds, commodity exposure, gold exposure and protective strategies (including credit securities, currencies and derivatives).

INTRODUCTION

To help us achieve these investment objectives, Ruffer sets out a Responsible Investment Policy. This policy sits within our general investment approach, which it supports and complements. It applies, except where stated, to all funds and entities managed by Ruffer on behalf of its clients and investors.

Environmental, social and governance (ESG) considerations are sources of both opportunity and risk and are thus potential contributors to investment performance. As such, they are one important sub-set of the risks and opportunities we consider in our fundamental investment analysis to help guide security selection and portfolio construction. Because our investment approach is unconstrained, our responsible investment analysis aims to raise red (or green) flags, not fix red lines.

Our Responsible Investment Policy is based on the twin pillars of integration and stewardship.

Integration refers to the incorporation of potentially material ESG factors into our fundamental analysis of individual securities.

Stewardship has two components: engagement with companies to encourage their progress on relevant ESG considerations; and proxy voting to represent the interests of our clients, further the aims of our engagements and, where appropriate, show support for management.

In summary, we believe investing responsibly is an essential driver of better long-term outcomes for our clients and investors.

1 An absolute return strategy does not guarantee a positive return

Governance and oversight

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 a sub-committee, the Oversight and Control Committee (OCC), 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 Responsible Investment Council (the Council) is a sub-council of the OCC that assists in the development, effective day-to-day management, oversight and implementation of the firm's responsible investment direction.

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

This Responsible Investment Policy, and associated processes for integration and stewardship, are continually updated, amended and supplemented as needed by the Responsible Investment team and are formally reviewed annually by the OCC.

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 importance of ESG factors in the investment process, we consider these formal qualifications important, and we support staff who wish to do additional sustainability/ESG qualifications.

Further, Ruffer has appointed a number of Front Office staff as Responsible Investment Specialists to assist in conducting ESG research and analysis.

Integration

SCOPE

This section applies to listed equities, sovereign bonds and protective strategies held within Ruffer funds and client portfolios. We have a collaborative research process, with ESG factors forming a part of our fundamental analysis.

Although Ruffer is a modest size relative to many global investment institutions, we devote considerable resource to investment research, monitoring and engagement with companies. That said, our capacity is finite, so we focus our efforts where they can have the greatest impact.

PURPOSE

As an absolute return manager with a relatively concentrated portfolio of equity and bond holdings, we work to understand a company's or sovereign government's ESG risks and opportunities alongside our fundamental analysis. This should enhance our investment decision making and risk management of portfolios and help us to identify key areas of focus for our stewardship activities with companies and for our engagement with policymakers.

APPROACH

Equities

We draw qualitative and quantitative considerations from both internal and external research and formal and informal data sources. MSCI ESG Research is our primary source of ESG data, metrics and ratings. The Sustainability Accounting Standards Board (SASB) framework provides us with guidance on material issues to consider at company level (see appendix for a list of issues considered). Institutional Shareholder Services (ISS) provides proxy voting research and the platform to exercise our votes for equity securities.

We grade the level of ESG due diligence required for equities depending on certain materiality thresholds such as, but not limited to, the size of the holding, the proportion of issued share capital held by Ruffer, or third party ESG ratings

- for every holding, we complete a standardised ESG summary of risks and recent controversies
- for holdings we consider material, a more extensive due diligence task is conducted collaboratively between the Research Analyst and the Responsible Investment Specialist

Each assessment covers potential areas for engagement, with materiality driving our decisions on where to focus our resources. Throughout our holding period, the security owner is responsible for keeping ESG considerations under review and for proxy voting at company annual general meetings and extraordinary general meetings (AGMs and EGMs).

Sovereign bonds

We have developed a proprietary model to assess sovereign ESG risks, consisting of country-level indicators to gauge each sovereign issuer's exposure. We include environmental inputs ranging from renewable energy usage to waste recycling and population studies assessing physical climate risk in low-lying areas. Social and governance indicators are equally broad, including health and education, female participation in the labour force and measures of political stability and corruption. This tool gives us a country-level ranking based upon these ESG risks.

Protective strategies

We invest in derivatives, both directly and through third party funds, and in credit securities via third party advisors. We cannot take an active ownership role in the management of these instruments and securities because Ruffer predominantly holds interests in indices (whose underlying assets we have no visibility on), rates or currencies which may not direct relate to any one company, issuer or security.

Stewardship

At Ruffer, stewardship activities include engagement (either individual or collaborative, with escalation if required) and proxy voting.

ENGAGEMENT

Scope

We engage predominantly with companies on material ESG issues identified as part of our listed equity investment research and oversight processes. For our holdings in sovereign bonds, we may engage with the issuer. But, as a price taker in these securities, we have limited ability to enact change. In the case of securities held in protection strategies (which may include credit, index-linked derivatives, credit default swaps or single-security instruments), we have little or no opportunity or legal right to effect change through engagement.

Purpose

Ruffer believes that engagement is an effective tool for achieving meaningful change, and we are committed to engaging with companies on a wide range of topics. We encourage management to adopt appropriate policies, activities and disclosure in line with established best practices.

Approach

We engage issuers through a combination of targeted individual discussions and collaborative initiatives with other investors. We prioritise engagement where we have identified material financial, reputational or regulatory risks. Interactions typically involve a combination of face-to-face meetings, video calls, telephone calls and written communication.

When an ESG issue is identified, we will usually raise it directly with investor relations, sustainability experts, company management or executive or non-executive directors.

Escalation

We monitor our engagement activities with companies and, if not satisfied with the outcome, may use a variety of escalation strategies to achieve our objectives. The approach taken depends on the circumstances of each case and may change based upon progress against engagement objectives, other developments or shifting priorities. The frequency of our interaction varies depending on the status of each engagement and the company's willingness to engage.

We may request a meeting with the company to communicate our concerns, highlight our engagement objectives and, if appropriate, set out timeframes for these objectives to be achieved. We would aim to follow up on this meeting with a letter reiterating the topics discussed. If these measures are not successful, we would consider further escalation strategies.

Our voting decisions at AGMs and EGMs are assessed in conjunction with our engagement activities. In casting the vote, we consider the most effective way to achieve change. Escalating our vote may include voting against a director, a group of directors (such as a committee of the board) or, in extreme circumstances, the entire board. We may make statements at AGMs to articulate our concerns and state our engagement objectives to the board.

We also consider both management and shareholder resolutions and whether voting against, or withholding our support from, management will facilitate change and the achievement of our engagement objectives. We may co-file shareholder resolutions in cases where constructive engagement has failed.

The internal governance of escalation involves informal discussion between Research Analysts, the Responsible Investment team and, if appropriate, Investment and Research Directors. If the issue develops to the point of collaborative engagement, co-filing shareholder resolutions or other public disclosure, the Research team may seek approval from the Responsible Investment Council or the Executive Committee, depending on the materiality.

If the various escalation channels have been exhausted and we see insufficient progress over time, we may decide to reduce or sell our holdings.

Collaborative engagement

In some instances, we believe collaboration with other investors may be the most productive way to achieve the desired outcome, particularly if our concerns are shared or individual engagement has not been successful. Collaborative engagement can also provide a platform to engage on wider sector, regulatory and policy matters with investors and other stakeholders. Decisions to collaborate on company-specific matters are judged case by case by the Committee, with input from the Responsible Investment team, Research Analysts and Portfolio Managers.

Sovereign bonds and protection strategies

We selectively participate in industry collaborations and the development of public policy standards, through engagement or formal responses to requests for comments, in order to act in or protect the best interests of our clients and investors.

PROXY VOTING

Scope

We aim to instruct a vote on our total shareholding of the companies held within our flagship funds, and on other material holdings above a certain threshold. These securities are added to a mandatory list. Voting on companies not held within these funds is subject to materiality considerations. Exclusions include

- where clients or investors have retained the right to vote
- equity securities held on behalf of private clients that we do not manage
- markets which are subject to share blocking or alternative voting restrictions

Ruffer will instruct a vote on AGM and EGM resolutions, including shareholder resolutions and corporate actions. This is applied to both domestic and international shares, reflecting the global nature of our investment approach. We try to vote on most holdings, but we may not vote when we believe it is in our clients' and investors' best interests.

We exercise voting rights on holdings in funds and client portfolios in line with Ruffer's voting guidelines unless we are explicitly instructed to take alternative action. We may facilitate clients' voting instructions on both segregated and pooled accounts, if we have sufficient administrative capacity and explicit client authorisation.

Purpose

We take our voting responsibilities seriously. We review relevant issues and exercise our judgement, 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.

Voting guidelines

Ruffer has internal voting guidelines that apply when we instruct a vote unless a client has specified their own voting preferences or we do not have the authority to vote. The guidelines apply across all regions on a 'comply or explain' basis. They include criteria for

- determining whether a remuneration policy should be supported
- determining independence and over-boarding of directors and the composition of board sub-committees
- commitments to support resolutions requesting disclosures aligned with the Task Force on Climate-related Financial Disclosures (TCFD) and political, lobbying or trade association payments or donations

In certain company-specific circumstances, we may deviate from our voting guidelines.

Ruffer's voting guidelines are reviewed periodically and adapted to reflect best governance practices.

Voting process

To ensure that we act in the best interests of our clients and investors, we review local best practices and corporate governance codes. Where companies do not comply with best practice, we consider their explanations before voting.

We have developed an integrated voting platform linked to proxy voting research, currently provided by ISS, to assist in the assessment of resolutions and the identification of contentious issues.

Although we acknowledge proxy advisers' voting recommendations, we generally do not delegate or outsource our voting decisions. Research Analysts are responsible for reviewing the relevant issues case by case and exercising their judgement, based on their in-depth knowledge of the company. They are supported by our Responsible Investment team.

Significant votes

With respect to non-UK clients, we look to the EU Shareholder Rights Directive II (SRD II) for guidance, but we take a broader definition in line with the Pensions and Lifetime Savings Association (PLSA) implementation statement. Therefore, we have defined significant votes as

- any shareholder resolution
- dissident shareholder slate (US only)
- any resolution listed on the IA Public Register (theia.org/public-register) that has received significant shareholder dissent
- any vote against management or against an ISS recommendation
- resolutions which relate to a fundamental or governance issue or concern Ruffer has with the company

Before a significant vote is cast, a quorum is convened with senior investment staff so that the analyst can provide a rationale for their decision. The Responsible Investment team oversees this process. If an agreement cannot be reached, we may escalate the decision according to the governance framework.

We look to discuss with companies any relevant or material issue that could impact our investment. We ask for additional information or an explanation to inform our voting decisions.

Climate change

OVERVIEW

At Ruffer, climate change is an ongoing theme in our responsible investment activities.

Ruffer acknowledges the need to shift the economy towards Net Zero anthropogenic emissions of greenhouse gases. To protect and enhance our clients' and investors' assets and guide our asset allocation and investment decisions, we consider two main sources of risk: transition (disruption and policy) and physical, whilst analysing signals such as human capital, innovation culture, decarbonisation barriers and opportunities and value creation across the supply chain.

We publish a TCFD Report, available at ruffer.co.uk/responsible-investing. This report explains our past climate-related activities and provides an insight into how our understanding of the risks and opportunities our investee companies face has evolved and how our research process has adapted to new or updated analytics and information.

Furthermore, we are taking steps to help our clients and investors meet their TCFD and climate-related needs by expanding our reporting capabilities to encompass portfolio-level carbon-related metrics. This includes building an internally developed IT solution to map carbon metrics to client portfolio holdings, enabling consistent and efficient delivery of climate risk measures.

Ruffer has committed to the Net Zero Asset Managers initiative, and more information on how we will achieve our commitments can be found in our climate change reporting.

We provide an update on our climate change related stewardship activities in our quarterly Responsible Investment Report and annual Stewardship Report.

FOSSIL FUELS

Ruffer follows a pragmatic fossil fuel strategy which prioritises delivering our investment objectives with a desire for decarbonisation in the real world.

This means Ruffer does not exclude companies or securities involved in the exploration, production, extraction, marketing, trading or sale of fossil fuels and related products. Rather, we may choose to not invest in certain companies, sectors or securities where we estimate the return for the given risk (loss of capital or reduced income) does not justify investment, either in isolation or for portfolio construction reasons. This process is not limited to the fossil fuel sector.

However, Ruffer is aware of the need to reduce societal reliance on fossil fuels (non-renewable) energy sources. Therefore, Ruffer extends its investment due diligence to assess company transition plans and may employ our stewardship approach, including escalation as appropriate, seeking to influence change where we see gaps, weaknesses or a lack of ambition in these transition strategies. Divestment, or the sale of company shares, is the last step in our escalation approach. It will be used sparingly, only where engagement has failed and we believe the risk assumed outweighs the potential return.

Client and investor reporting

We maintain transparent and responsive communication with clients and investors to ensure we meet their needs. This is achieved through

- ad hoc thought pieces published online or within the annual Ruffer Review
- our quarterly Responsible Investment Report providing an overview of recent engagement activities, alongside thought pieces
- our annual Stewardship Report covering our stewardship and activities in response to the UK Stewardship Code
- voting records including aggregated quantitative and qualitative voting data with explanations of our voting rationale
- voting data and significant votes information in the PLSA Implementation Statement template in response to evolving pension fund regulation
- resolution level voting data on our website for all holdings in our flagship funds, in line with the SRD II requirements
- our annual Task Force on Climate-related Financial Disclosures Report

Ethical investment restrictions

SEGREGATED APPROACH

Ruffer offers clients the opportunity to incorporate their own ethical values and beliefs into our investment approach through individual segregated portfolios. Where it is not possible to incorporate ethical investment restrictions while safely constructing a portfolio aligned with Ruffer's two investment objectives, we will work with the client to find a solution that meets their needs.

LUXEMBOURG DOMICILED FUNDS

Regulation requires that any fund domiciled in Luxembourg restricts investment in cluster munitions or anti-personnel mines. More information is available in the relevant fund prospectus, available at ruffer.co.uk/funds

CHARITY ASSETS TRUST

UK charities can invest in Ruffer's common investment fund, the Charity Assets Trust.

The fund has an ethical screening policy which restricts investment in alcohol, armaments, gambling, pornography, tobacco, thermal coal and oil sands. In addition, potential and current investments in the fund are monitored regularly for their compliance with the United Nations Global Compact and for their MSCI ESG rating. For companies with an ESG rating of B or CCC, we will engage to ask for more information to help us understand the issues raised. We also monitor the fund's weighted average carbon intensity and the top five contributors to absolute carbon footprint every quarter.

Further information about the Charity Assets Trust is available at ruffer.co.uk/cat

Further information

The following documents are available at
ruffer.co.uk/responsibleinvesting

- our response to the UK Stewardship Code
- Responsible Investment Reports
- a selection of articles on ESG topics
- Task Force on Climate-related Financial Disclosures (TCFD) Reports

Contact us

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RUFFER.CO.UK

Appendix

SASB SUSTAINABILITY ISSUES

SASB.ORG

Environment

- Greenhouse gas emissions
- Air quality
- Energy management
- Fuel management
- Water and wastewater management
- Waste and hazardous materials management
- Biodiversity impacts

Social capital

- Human rights and community relations
- Access and affordability
- Customer welfare
- Data security and customer privacy
- Fair disclosure and labelling
- Fair marketing and advertising

Human capital

- Labour relations
- Fair labour practices
- Diversity and inclusion
- Employee health, safety and wellbeing
- Compensation and benefits
- Recruitment, development and retention

Business model and innovation

- Lifecycle impacts of products and services
- Environmental and social impacts on assets and operations
- Product packaging
- Product quality and safety

Leadership and governance

- Systemic risk management
- Accident and safety management
- Business ethics and transparency of payments
- Competitive behaviour
- Regulatory capture and political influence
- Materials sourcing
- Supply chain management