Responsible Investment Report 2019

CHARITY ASSETS TRUST

A note from the fund managers

AT RUFFER, THE CONSIDERATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES IS FULLY INTEGRATED INTO OUR INVESTMENT PROCESS.

In order to achieve this, our Responsible Investment (RI) team works in partnership with our Research team throughout the research process. This starts at the initial research phase by the analyst through to company meetings and the presentation of the stock to the Investment Management Teams. Thereafter, all investee companies are monitored by both the Research and RI teams. We are looking to expand this depth of integration to other asset classes.

At the end of 2018, we set out to evolve the responsible investment policy for the fund. This extended the traditional 'negative screening' policy in recognition of the power of invested assets to drive responsible change. As a firm, Ruffer believes wholeheartedly in the power of engagement with the companies in which we invest. This report details the notable progress we have made, from encouraging ArcelorMittal to actively participate in the transition to a low-carbon economy, to improving corporate governance at some of our Japanese holdings.

The most common theme raised by our investors and clients continues to be fossil fuels and the low-carbon energy transition. We have looked to address the risks and opportunities related to this theme, through both the new policy and the management of the fund as discussed in this report.

The fund's responsible investment policy will continue to evolve over time. We are committed to being proactive and forward-looking in improving the incorporation of responsible investment considerations into the management of the fund.

Please do get in touch if you have any questions.

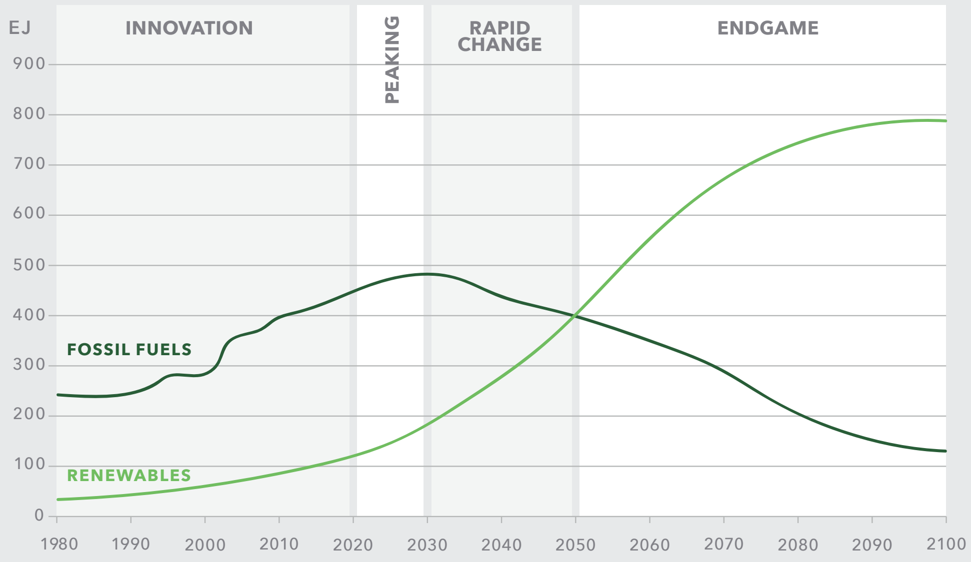
Christopher Querée
Jenny Renton

In focus – fossil fuels

AT RUFFER, WE BELIEVE AN ENERGY TRANSITION IS UNDERWAY and we want to both manage the risks and capture the opportunities that such a transition will present. We do, however, acknowledge that hydrocarbons will continue to provide a significant proportion of global energy for the foreseeable future. They will form an unavoidable, and essential, part of the transition to a low-carbon economy. Whilst renewables are growing at a considerably faster rate than fossil fuels, even the most ambitious scenarios which reach the goals of the Paris Agreement rely on fossil fuels (natural gas in particular) to provide a significant proportion of our energy in 2050. To read more on our views on when we expect fossil fuel demand to peak, please see our 2019 Responsible Investment Report, available at ruffer.co.uk/RI-Report-2019

The Charity Assets Trust incorporates a restriction on companies which derive over 10% of their revenue from oil sands or thermal coal. These are parts of the fossil fuel sector which have such severe environmental impacts, and such a high carbon intensity, that it is not possible to align their business models with the goals of the Paris Agreement. Engagement would therefore be of little benefit and we believe

TOTAL PRIMARY ENERGY



Source: Shell Sky scenario, annotation by Carbon Tracker Initiative not owning companies which derive a significant amount of their revenue from these activities is appropriate. Our approach to fossil fuel investments that do not breach these criteria is to identify best-in-class companies in terms of the energy transition and to actively engage with management. We believe we can have a positive impact through our voting practices and our engagement with companies. For instance, by pressing for higher levels of disclosure we ensure that risks can be better modelled and understood. We aim to ensure that companies are operating responsibly, in a way that effectively manages the transition to a lower carbon economy. We remain firmly of the view that engagement is a more powerful tool for investors than divestment (read more in The Ruffer Review 2020, available at ruffer.co.uk/rufferreview).

Where we do hold exposure to fossil fuels, this plays a specific portfolio role that we feel cannot be replicated using any other asset class. For instance, as a hedge against political problems in the Middle East. The largest oil holding in the fund is the Norwegian oil major Equinor.

equinor

EQUINOR (formerly Statoil) is a Norwegian energy company developing oil, gas, wind and solar energy in more than 30 countries worldwide

Equinor is seen as an ESG leader in comparison to its integrated oil peers. They are fully supportive of the Paris agreement and a net zero emissions target for society. In January 2020 they launched ambitious new targets to reduce net greenhouse gas emissions to zero by 2050. This is to be achieved by a combination of efficiency improvements and research and development funding in its new energy solutions business. This strategy is illustrated by its two largest ongoing projects.

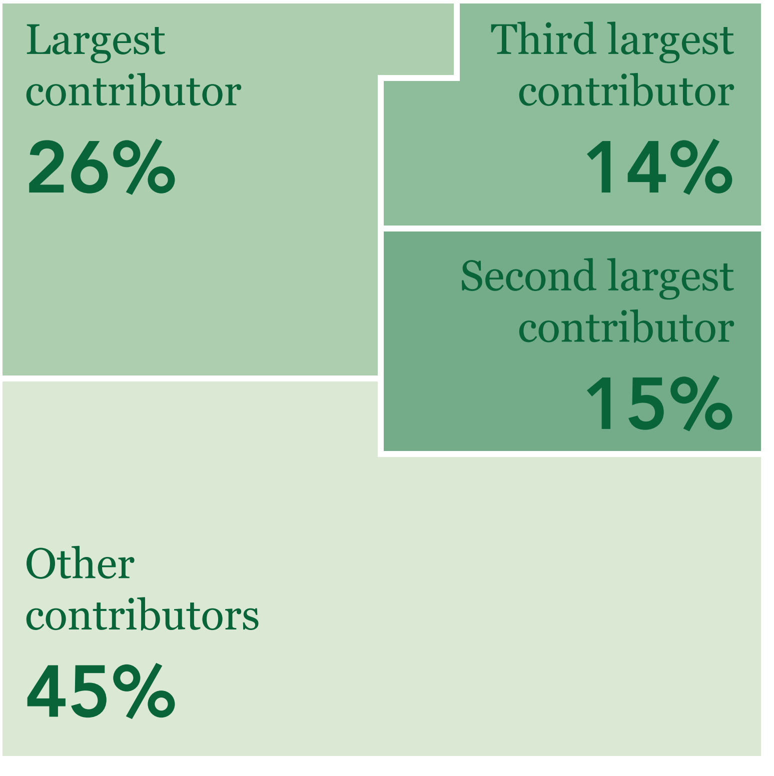
1. The newly opened Johan Sverdrup field: Norway's third largest oil field ever. The field will be powered using hydroelectricity from the mainland. This will reduce the carbon dioxide emitted in the production of each barrel of oil to 0.67kg, compared to a global average of 18kg.
2. The Dogger Bank offshore wind farm. Equinor is currently constructing the world's largest offshore wind farm. Once complete, it will produce enough energy to power the equivalent of 4.5 million UK homes.

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 was recommended by the Task Force on Climate-related Financial Disclosures and measures a portfolio's exposure to carbon-intensive companies. It allows for decomposition and attribution analysis, enabling us to identify the largest contributors to the metric. We then use this to inform our management of the fund and subsequent engagements with investee companies.

WEIGHTED AVERAGE CARBON INTENSITY



Source: MSCI ESG research, Ruffer calculations. Data as at 31 December 2019

LARGEST SINGLE CONTRIBUTOR

ArcelorMittal

ARCELORMITTAL is the world's largest steelmaker.

FIRST BOUGHT AUGUST 2018

The production of steel is, at present, a very carbon intensive process. However, much of the infrastructure required to transition to a low-carbon economy requires considerable quantities of steel, for instance in the manufacture of wind turbines. Encouraging steel companies to fund research into less carbon intensive production methods could have a significant impact on the energy transition. Our engagement with ArcelorMittal focuses on this goal.

EARLY 2019

Ruffer joined the Climate Action 100+ working group focussed on engaging with ArcelorMittal, represented by Alexia Palacios, one of our dedicated Responsible Investment team. In May 2019 Ruffer became one of the joint leads of the group.

Q1 2019

Our first engagement as part of the Climate Action 100+ working group focussed on the governance of climate related risks. We noted the company's initial work on less carbon intensive production methods, and encouraged them to link greenhouse gas emissions targets to executive remuneration to better align them with the goals of the Paris Agreement.

Climate Action 100+

A five year initiative, launched in December 2017, to engage with the world's largest corporate greenhouse gas emitters. The initiative, which is led by investors, has three high-level goals on climate-related matters: to improve governance, reduce emissions and increase disclosure and is engaging with 161 companies. By the end of 2019, the initiative was supported by over 370 investors representing $35 trillion in assets under management (Climate Action 100+ 2019 Progress Report).

Attended Annual General Meeting (AGM) and group meeting with Lakshmi Mittal, CEO and Chair of the Board; Brian Aranha, Executive Vice President; Nicola Davidson, Vice President Corporate Communications and Corporate Responsibility; and other senior colleagues

Issues: Environmental, governance – climate change, lobbying disclosure

Q2 2019

We attended the AGM in May as one of the lead investors of the Climate Action 100+ working group. We encouraged the company to commit to science-based targets. We also pressed for them to join the Energy Transition Commission and to carry out scenario analysis in line with the goals of the Paris Agreement. We were encouraged that the company joined the ETC later in 2019 and included scenario analysis in their first Climate Action Report released in May 2019.

Q3 2019

We met with senior management and praised the company on the clarity and detail of their first Climate Action Report, welcoming the public disclosure of their ongoing low-carbon projects and encouraging continual disclosure on progress. We discussed targets to reduce greenhouse gas emissions in detail, given the company had announced an ambition in the report to become carbon neutral in Europe by 2050.

We were particularly encouraged by the work it has done on the science-based targets initiative to create a methodology for steel companies, and stressed we would like their 2030 target (to be announced later in 2019) to be science-based and achievement of the target should be linked to executive remuneration.

Energy Transitions Commission (ETC)

The ETC brings together Commissioners from a range of backgrounds, including highly carbon-emitting industries, to find ways to accelerate the energy transitions needed around the world to achieve the goals of the Paris Agreement.

Science-based targets

Targets adopted by a company to reduce its greenhouse gas emissions are considered 'science-based' if they are in line with the level of decarbonisation required to achieve the goals of the Paris Agreement.

ESG ratings

The overall ESG rating ascribed by MSCI ESG Research to a company is just one of the additional responsible investment inputs considered when assessing whether to invest in a company. 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.

KEY CHANGES IN 2019

The number of companies rated AAA rose from two to five. One existing stock (Sony) was upgraded and two new companies added. Meanwhile, the number of companies rated B or lower fell from seven to three. Two were sold, three upgraded and one added during the year.

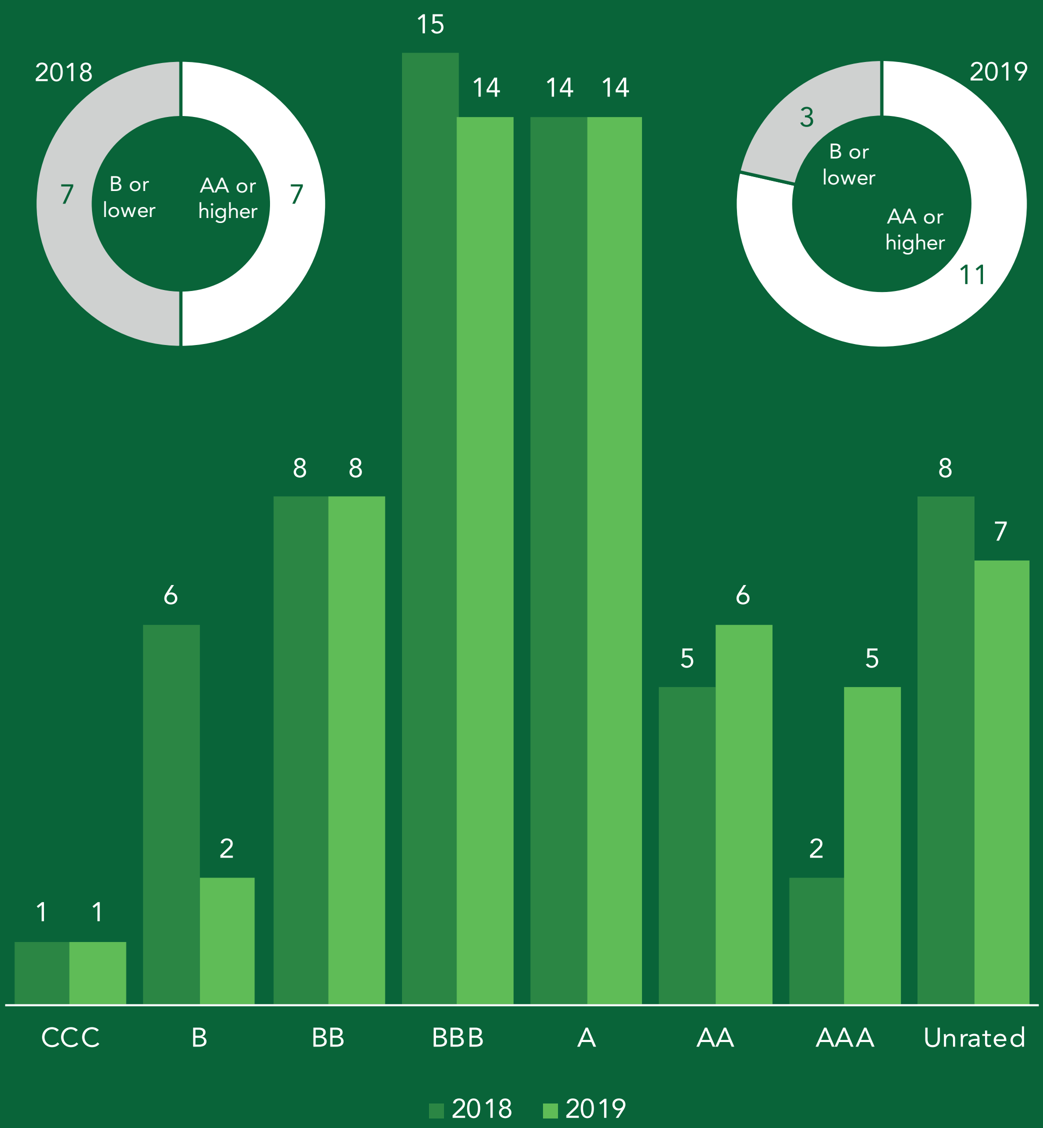
SONY®

SONY is a global technology, entertainment content and platform company.

Sony has been held within Ruffer since 2009 and in the fund since 2013. Improving corporate governance in Japan has been a priority for the Government in recent years, as a mechanism to enhance balance sheet efficiency and capital allocation decisions, with the aim of increasing corporate value and ownership by foreign investors.

Sony is the poster child for this government drive, it has historically remained far cheaper than its global peers, in part due to international investor aversion to the opacity and weaker corporate governance practices of the Japanese market. We have engaged extensively with management during our ownership and a steady improvement in governance practices and restructuring have contributed to the stock closing some of its valuation gap versus western competitors.

ESG RATING OF HOLDINGS WITHIN THE CHARITY ASSETS TRUST



Source: MSCI ESG Research as at 31 December 2019

Stewardship

WHERE AN INVESTMENT IS HELD IN A COMPANY WITH AN 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 three companies currently rated B or lower are General Motors, Livent and Valaris. Two companies held in the fund do not comply with the United Nations Global Compact principles. These are Royal Dutch Shell and Barrick Gold. Both fail to meet the principles relating to human rights abuses and environmental challenges.

We include on 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 2019 Responsible Investment Report, available at ruffer.co.uk/RI-Report-2019

GENERAL MOTORS is an American automobile manufacturer.

Conference call with Stephanie Mould, Investor Relations – Senior Manager; Sharon Basel, Sustainability – Senior Manager; and Scott Cross, Corporate Governance – Manager

Issues: Environmental, governance – fuel economy and emissions standards, board structure, succession planning and lobbying disclosure

It receives a rating of CCC from MSCI ESG Research – their lowest rating category. Issues highlighted include exposure to industrial action as a result of their extensive restructuring plan, in addition to governance, environmental and product safety concerns.

The fund initiated a position in General Motors (GM) in mid-2018. A key tenet of the investment case is that we believe the market is underestimating the success of the business restructure. Our engagement with the company has focussed on understanding how the company is managing the transition to an all-electric vehicle future, in addition to expressing governance concerns for instance the long tenure of board members and lack of an independent Chair of the Board. We feel that the market is underestimating the value of the GM Cruise autonomous driving unit and therefore the company's ability to adapt to changes in the motor industry more broadly. We also accept that the board structure has enabled the company to navigate a challenging period and are comfortable with their plans to adapt this going forward.

Livent

LIVENT is a global leader in producing lithium for batteries.

Conference call with Daniel Rosen, Investor Relations

Issues: Environmental – policy formation and data disclosure, water consumption

It receives an MSCI ESG Research rating of B. The main issue highlighted is Livent's water intensive business activities in highly water stressed countries, as well as a lack of robust governance policies on emissions and water management.

The fund owns Livent as an attractive way of gaining exposure to the structural growth in electric vehicles and lithium battery demand, thanks to its position as the lowest cost lithium provider globally. It separated from FMC Corporation in late 2018 and much of our engagement has focussed on their ongoing policy formation as an independent entity. We have also discussed at length their efforts to reduce water consumption by developing new production technologies.

VALARIS resulted from the merger of Ensco and Rowan, which created the world's largest offshore drilling fleet.

Conference call with Thomas Burke, CEO; Carl Trowell, Executive Chair of the Board; and William Albrecht, Non-Executive Director

Issues: Governance – board structure, remuneration

It receives an MSCI ESG Research rating of B. Issues relate to its health and safety and emissions management programmes.

Our engagement has focused on the company's management of sustainability and safety issues, in addition to board structure and remuneration.

ROYAL DUTCH SHELL is a global energy and petrochemicals company operating in more than 70 countries.

MSCI ESG Research deems that the company fails to comply with the principles of the UN Global Compact due to historic controversies stemming from its Nigerian operations, principally allegations that poor pipeline maintenance has led to spills and environmental damage in the Niger River Delta.

We have owned the stock for a significant period and have engaged with the company in relation to these issues. We are encouraged by the company's compensation agreements and commitments to a $500m clean-up operation in the region. We are confident that they have improved structures in place to prevent such events in future, and our more recent engagement has focussed on the company's progress in relation to the energy transition goals.

More information can be found in our 2019 Responsible Investment Report, available at ruffer.co.uk/RI-Report-2019

BARRICK GOLD is the world's second largest gold mining company, with mining operations in 15 countries globally.

MSCI ESG Research deems that the company fails to comply with the principles of the UN Global Compact due to controversies reported at its North Mara mine in Tanzania. The majority of the allegations relate to tensions and purported violence between mine security staff and locals in 2011.

We have expressed serious concern over the company's management of relations with the communities in which it operates, and have been encouraged by the significant steps forward it has made. These include systems that comply with the UN Guiding Principles on Business and Human Rights and more active collaboration with local community groups and police forces alongside educating locals on their Community Grievance Procedures and rights.

Voting

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

Key voting information is listed below, more detail is available in our 2019 Responsible Investment Report ruffer.co.uk/RI-Report-2019

	2017	%	2018	%	2019	%
Total items voted	**758**		**948**		**1025**	
For	673	88.8	911	96.1	944	92.1
Against	68	9.0	26	2.7	62	6.1
Abstain/withhold/other	17	2.2	11	1.2	19	1.9
Against management	33	4.4	33	3.5	69	6.7
Shareholder proposals	78	10.3	56	5.9	31	3.0

WALT DISNEY is a worldwide entertainment and media company. It was founded in the 1920s as a cartoon studio.

REMUNERATION: Ruffer embarked on a programme of engagement around the company's remuneration which contributed to the company revising the planned increases in the CEO's compensation and a proposal that we were comfortable supporting.

LOBBYING AND CYBER SECURITY: We supported two shareholder resolutions, voting against the recommendations of management. The first asked for additional disclosure on lobbying-related activities, which we see as a particularly important issue in the United States and felt we needed more information on. The second resolution asked for the inclusion of cyber security and data privacy measures in the determination of executive remuneration.

WHITBREAD operates hotels and restaurants in the UK and Germany, predominantly through its Premier Inn brand.

REMUNERATION: We felt that the company's rationale for increasing the quantum of overall executive pay to be in line with its FTSE 100 peers did not align with the smaller, more streamlined business after the sale of Costa. We also had concerns over the transition of the long-term incentive plan to a restricted stock plan at this stage in the cycle, given the executives benefitted from benign market conditions over the past ten years. Whilst we acknowledged the reduction in executive pension contribution, we questioned why it was not being aligned to the rate of the wider workforce. We engaged with management to express these concerns and to notify them that we would be voting against the proposed remuneration policy.

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