RUFFER

Responsible Investment Report 2020

CHARITY ASSETS TRUST

A note from the fund managers

AT RUFFER, WE BELIEVE THAT CONSIDERING ALL RELEVANT ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS ASSOCIATED WITH OUR INVESTMENTS IS VITAL TO UNDERSTANDING THEIR RISKS AND OPPORTUNITIES. An advantage of our single investment approach and in-house research team is that ESG issues can be integrated throughout our investment process.

The Charity Assets Trust builds on this firmwide ESG integration through a responsible investment policy that not only restricts investment in areas of concern for many charities but also utilises additional tools to help guide our stewardship activities to drive positive change. We remain firmly committed to engagement as a tool for achieving lasting and meaningful change in the companies in which we invest.

Climate change and the low carbon energy transition remain the key issues raised by our charity investors. In 2020, we continued to focus our engagements on this theme. This report details our progress, from a net-zero emissions commitment by ArcelorMittal to unlocking opportunities in the electric vehicle transition.

The covid-19 pandemic put social issues at the top of the agenda for governments and companies, as both navigated through unprecedented challenges. As a firm we added a further theme to our engagement activities – stakeholder management in response to the pandemic. More details on our activities in response to these themes, the effectiveness of our response and how we have incorporated this into our investment decision-making can be found in our 2020 Stewardship Report.

The fund's Responsible Investment Policy will continue to evolve in response to our clients' needs and the changing investment landscape. One example of this is our investment into an impact investment trust during 2020. This investment was made with a view to understanding more about a sector which is of increasing relevance to charity investors, to help determine how it might be incorporated within our investment approach.

Please do get in touch if you have any questions.

Christopher Querée
Jenny Renton

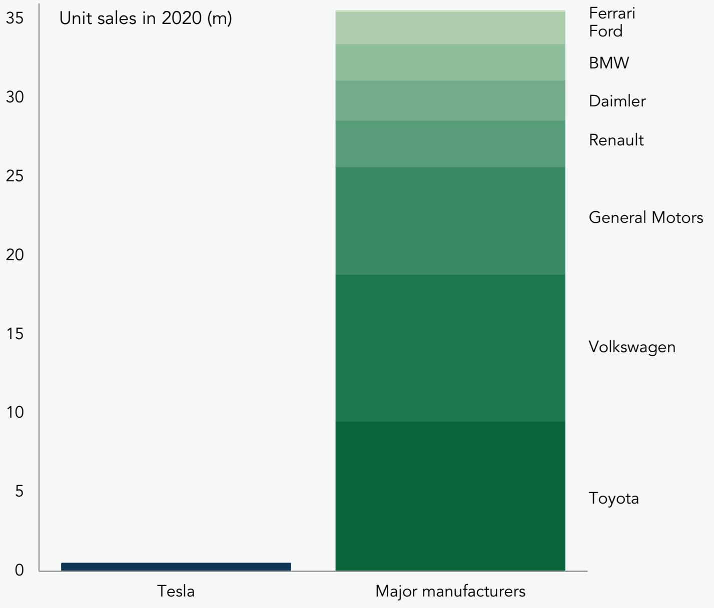
In focus – the transition to electric vehicles

ROAD TRANSPORT CONTRIBUTES ALMOST AN EIGHTH OF GLOBAL GREEN-HOUSE GAS EMISSIONS.[1] Cleaner transport is essential to reduce emissions and limit the damage to our environment. Yet the transition to electric vehicles (EVs) has so far been sluggish in comparison to other energy transitions, such as solar and wind power.

Recently, however, the conjunction of technological improvements, falling battery costs, motivated automakers, and increasingly assertive regulators have prompted optimism around a dramatic acceleration in EV adoption. Consensus estimates are that EVs and plug-in hybrids will account for 10% of global auto sales by 2025, with a higher proportion in China and the European Union. By 2030, the proportion is expected to be almost 30%.

The potential for an inflection in demand has resulted in excitement around the electric vehicle value chain, and much higher valuations for many of the companies involved. This has led to a stark polarisation of interest and valuation between new entrants to the automotive industry, such as Tesla, and the traditional (OEM) automakers.

GLOBAL VEHICLE DELIVERIES IN 2020



1 Climate Wtach
Chart: Ruffer, FactSet

VALUATION

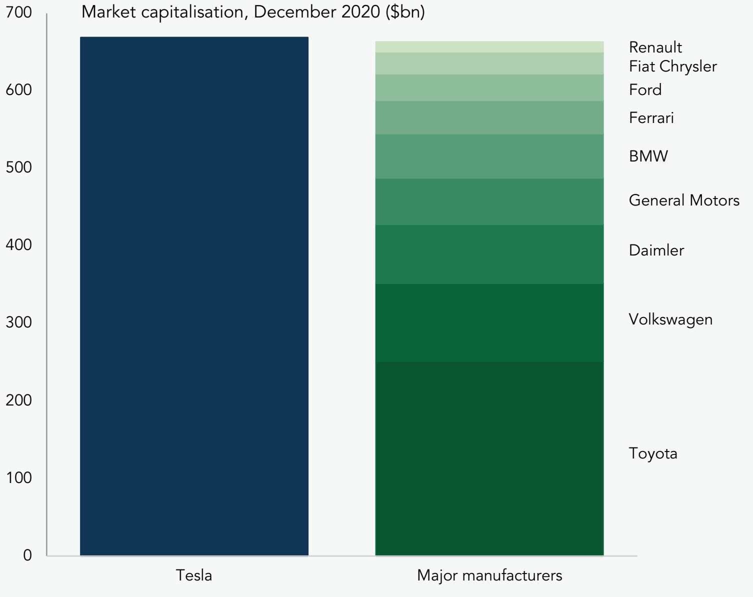


Chart: Ruffer, FactSet

This has made finding attractively priced businesses in the sector increasingly difficult, but not impossible. The scale of the valuation disparity highlighted above stems from the conclusion that the incumbent OEMs were caught flat-footed by technological change. Equity markets have punished them over concerns their businesses are being disrupted and their profit pools are dissipating. However, the scale of EV investment taking place within businesses such as Volkswagen (VW) and General Motors (GM) is remarkable. VW plans to become the global market leader in e-mobility by 2025 and launch 70 different EV models by 2030.

At Ruffer, we see considerable value and investment upside in these traditional automakers, which come with an entrenched market share, a loyal customer base and deep pockets for significant EV-related investment and development. The fund holds significant positions in both.

Elsewhere in the EV value chain, while the chemical composition of vehicle batteries is evolving rapidly, and new technologies including solid state batteries are emerging, the use of lithium is a constant for the foreseeable future. While there is no global shortage of lithium resources, low cost and environmentally sustainable deposits are rare. As a result, the fund's holding in Livent, which has quality assets located in Argentina, forms the bedrock of our EV materials exposure.

For more on our views on the EV transition, see Research Director Alex Barnett's article in our Q1 2021 Responsible Investment Report.

AT THE WHEEL: ENGAGING WITH AUTOMAKERS

Beyond investing in these businesses for exposure to electric vehicles, we also view meaningful engagement with them on their ESG efforts as indispensable. We have actively engaged with management on their governance and sustainability practices and stressed how crucial their EV transition is to the business and to financial markets. More detail on our engagement with these companies can be found later in the report.

The case of electric vehicles highlights the strengths of our approach to responsible investment. Our unconstrained investment style and extensive in-house investment analysis facilitates the identification of underappreciated areas of value within a broader climate theme. Our firm commitment to engagement allows us to ensure that this value is realised sustainably. The result is both a positive investment outcome and the successful deployment of our clients' assets to further the energy transition.

Impact investment

SCHRODERS BIG SOCIETY CAPITAL SOCIAL IMPACT TRUST

The fund participated in the placement of the Schroders Big Society Capital (BSC) Social Impact Trust in December 2020. This is the first UK-listed social impact investment trust.

The fund is a collaboration between Schroders and BSC, a specialist in social impact investment in the UK. The fund focusses on high impact social housing, funding debt for social enterprises, and investing in social outcomes contracts to meet specific targets for social improvement set by local government. After meeting with the managers of the new trust, we were impressed by the combination of

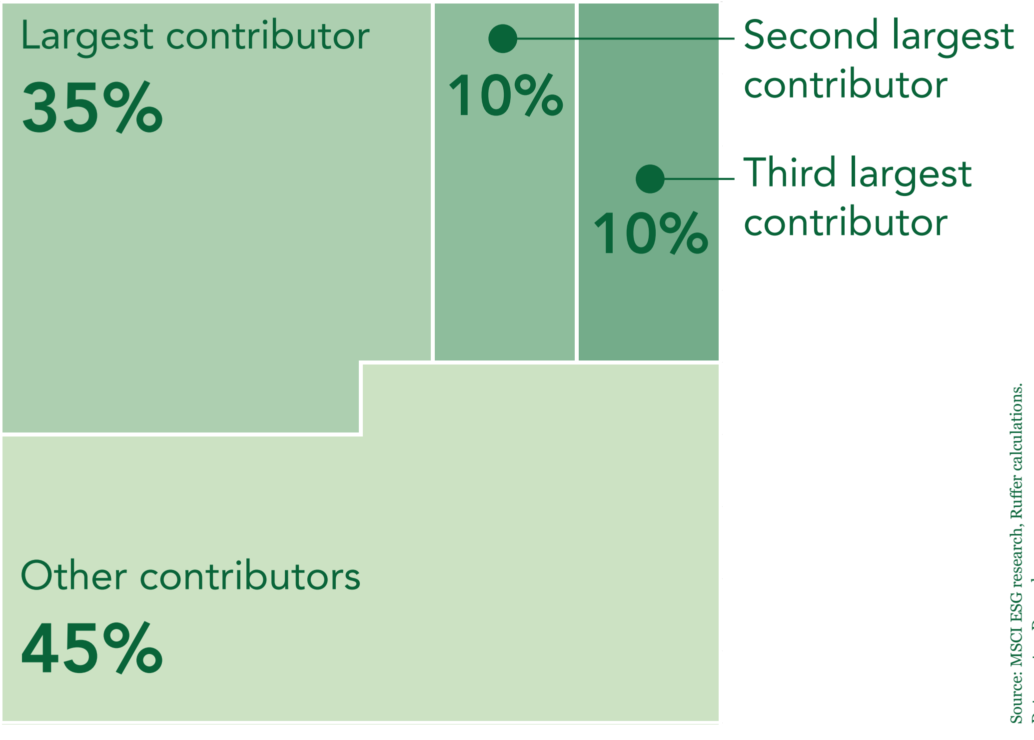
- BSC's stellar record in delivering meaningful social impact
- inflation protection (the trust has a target return of CPI+2%)
- underlying assets with returns that have low correlation with conventional markets

The investment was made in light of the increasing importance of impact investment to the Charity sector. This initial position will allow us to keep a close eye on this nascent sector as it evolves, with a view to determining how best we can engage with the positive momentum of impact investing within our absolute return approach.

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 and so we can identify the largest company contributors to this metric, which we use to inform our management of the fund and subsequent engagement with investee companies.

WEIGHTED AVERAGE CARBON INTENSITY



Source: MSCI ESG research, Ruffer calculations.
Data as at 31 December 2020

LARGEST SINGLE CONTRIBUTOR

ArcelorMittal

As detailed in our 2019 Responsible Investment report, we have engaged extensively with ArcelorMittal through Climate Action 100+, where we are one of the co-lead investors, since our initial investment in August 2018. Since ArcelorMittal is the world's largest manufacturer of steel, an essential raw material for renewable energy infrastructure, we are firmly of the view that active engagement with the company can have a meaningful impact on the energy transition.

We had numerous meetings with ArcelorMittal during 2020 and we are encouraged by the commitments that the company has made, most significantly in September 2020 to be net-zero across its global operations by 2050. This is a hugely important step and achievement of this target will require the development of new production processes using either the 'smart carbon' based route or via the use of hydrogen, instead of coal, to reduce iron-ore. While most of these technologies are still in the pilot phase, the announcement that the company has begun to produce 'green steel' in 2020 at its European operations demonstrates the feasibility of these new processes.

The net-zero commitment followed pledges in December 2019 for its European operations to reduce its emissions by 30% by 2030 and to be net-zero by 2050. Our engagement is now focused on encouraging the company to set an ambitious 2030 emissions reduction target across its global operations and to publish a robust transition plan setting out how it will achieve these targets. Both these topics were discussed in detail at a meeting with Aditya Mittal, CFO and board member, and Bruno Lafont, Lead Independent Director, in November 2020 and we look forward to continuing our productive discussions in 2021.

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 2020, the initiative was supported by more than 540 investors, representing $52 trillion in assets under management (climateaction.org)

OUR ENGAGEMENT WITH ARCELORMITTAL

AUGUST 2018

Charity Assets Trust initiated a 0.5% position in ArcelorMittal

EARLY 2019

Ruffer joined the Climate Action 100+ working group on ArcelorMittal and became joint engagement lead. Since then, we have held numerous in-depth discussions with the company

FEBRUARY 2019

Added to holding

MAY 2019

Attended the company's AGM and held a private meeting with CEO Lakshmi Mittal. He confirmed the company would join the Energy Transitions Commission and would publish their first climate action report. We asked the company to commit to setting science-based targets

OCTOBER 2019

Added to holding

DECEMBER 2019

ArcelorMittal announced targets to reduce their European carbon emissions by 30% by 2030, and to be carbon neutral in Europe by 2050. We commended them on these commitments but stressed the importance of setting goals for the company as a whole

MAY/JUNE 2020

With increased confidence in the company's strategy we supported their capital raise, taking the position to 1.5% of the fund. The shares have more than doubled since

SEPTEMBER 2020

ArcelorMittal announced a revised target of being carbon neutral by 2050 across their global operations

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 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.

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. See the next section for examples of this in action.

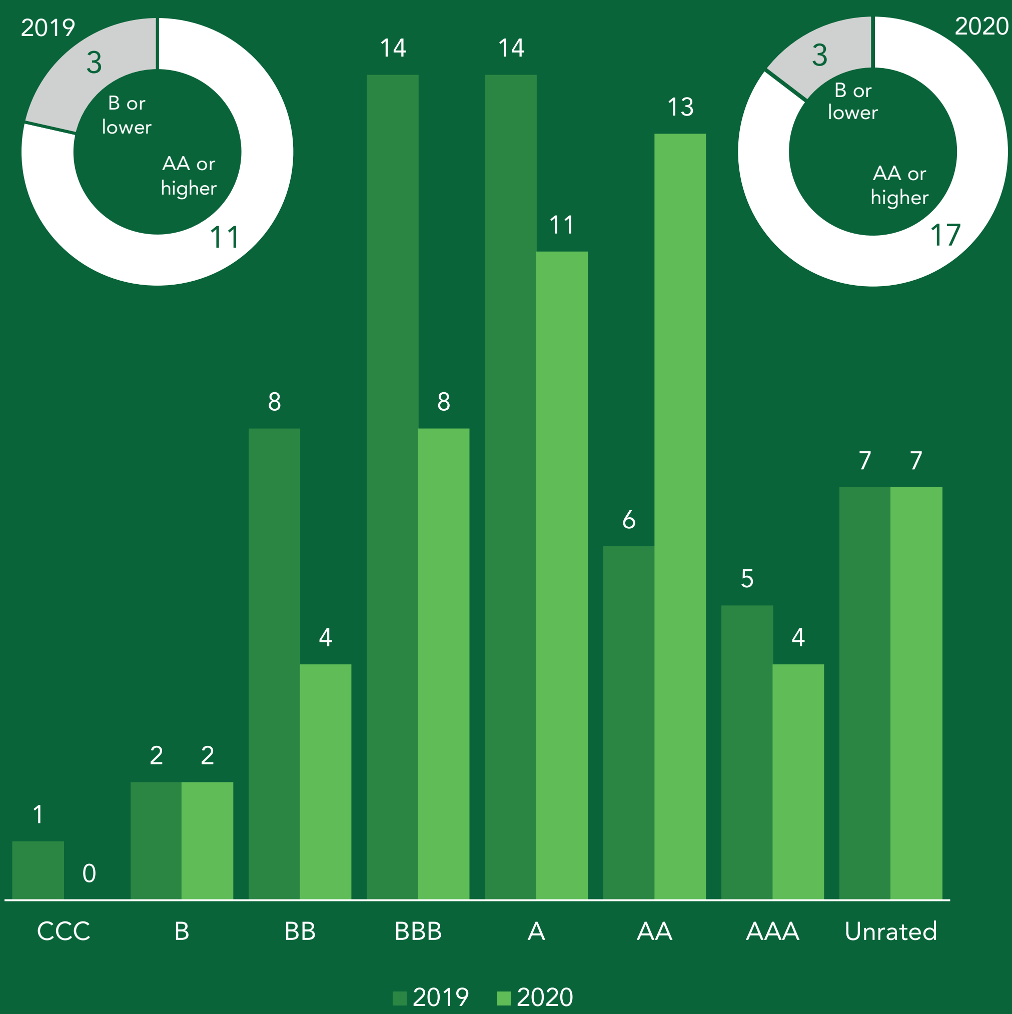
KEY CHANGES IN 2020

There were 25 companies held at the end of 2020 that were also held at the end of 2019.

Of these, 10 companies saw their rating change during the year. 100% of these saw ratings upgrades.

We are pleased the positive progress in the companies we hold is being recognised in this way.

ESG RATING OF HOLDINGS WITHIN THE CHARITY ASSETS TRUST



Source: MSCI ESG Research as at 31 December 2020.
Excludes companies held in the Japanese corporate governance theme: see overleaf

Japanese corporate governance

IN EARLY 2020, THE FUND MADE AN ALLOCATION TO A DIVERSIFIED COLLECTION OF JAPANESE STOCKS. In total, the allocation constitutes 1.7% of the fund, with each of the 23 companies making up a small fraction. Ruffer has a rich history of investing in Japanese equities and through this exposure we have begun to sense that the ESG revolution which has engulfed Western markets is beginning to take hold in Japan. The holding is intended to benefit from the realisation of value as this trend leads to improving corporate governance across the Japanese market.

The companies we have selected typically lag their Western counterparts in corporate governance standards. We believe there are well-defined improvements addressing key issues and that these are being identified by the market. Through our own engagement, we can further encourage these changes.

Since the initiation of this allocation, we have met with 16 management teams to highlight our concerns and explain our views of best practice.

Key areas covered include a lack of board independence, cross-shareholdings between listed or affiliated companies, excessive cash holdings and a reluctance to enact dividends or share buybacks. In some cases, where an activist investor is a co-shareholder, we will echo our support for their campaigns in our engagement process.

We have also used our power to vote against board members who do not meet our definition of independence.

One successful example has been Fujitec, an elevator manufacturer. We met with the company on multiple occasions during 2020 and were invited to input into their new business strategy. We believe the changes, such as a board restructure, will help to close the valuation disparity with Fujitec's European peers and the share price has risen by over 30% since our investment.

Stewardship

WHERE AN INVESTMENT IS MADE 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 held in the fund (outside of the Japan corporate governance theme) that were flagged by these metrics as at the end of 2020 were Livent, General Motors (both with an ESG rating of B) and Volkswagen (ESG rating CCC and fails to comply with the UN Global Compact).

The poor ratings for both GM and VW are due to historical issues. Livent's poor rating is primarily due to having recently spun off from its parent company and not yet having formulated detailed sustainability plans. Through our in-depth in-house analysis, we have taken the view that these historic issues are unfairly weighing on the stocks, and masking the excellent sustainable investment opportunities presented by all three. We are of the view that they provide underappreciated and undervalued exposure to the electric vehicle transition.

We include below a summary of our engagement activities with the companies in question during 2020. Our engagement activities have focused on ensuring the companies continue to improve their governance and sustainability programmes to ensure they can capitalise on the electric vehicle transition opportunity.

More detail on our engagement with these companies – and our stewardship activities across the firm – can be found in our 2020 Stewardship Report.

GENERAL MOTORS is an American car manufacturer headquartered in Detroit

Issues: Environmental, social, governance – low-carbon transition, lobbying, board structure

We had a conference call to discuss the company's electric vehicle transition plan. and emissions standards compliance. We also continued our engagement on emissions standards compliance, board structure and lobbying, more detail on this can be found in our 2020 Stewardship Report.

Given the importance of EVs to the company's overall strategy, and its recent commitment to increase its combined investment in electric and autonomous vehicles to $27 billion by 2025, we discussed the topic in detail. We focused on how the company plans to balance its ambitions for EVs with its existing internal combustion engine businesses, and the strategy for EV adoption across different markets both within and outside the US. General Motors detailed the measures it has put in place internally to manage the transition, including expanding its planned range of EVs to cater to different markets. We also discussed its partnerships with other automakers which are focused on increasing the efficiency of its internal combustion engines and are likely to free up investment for EVs.

We asked for more disclosure on how the company links its emissions targets and its EV strategy to executive remuneration. The company explained it expects to announce detailed alignment of remuneration with ESG targets (including for EV transition) next year. We welcomed this and stressed the importance of making these targets quantitative and sufficiently ambitious.

Livent

LIVENT is a lithium technology company, providing products for electric vehicles and energy storage, along with other industrial applications

Issues: Environmental, governance – progress on sustainability policy formation and targets, data disclosure, board accountability

After our engagement with Livent in the fourth quarter of 2019, we initiated this call to follow up on the company's progress. Since the initial engagement, the company has published its inaugural sustainability report and launched a convertible 'green note', establishing a green bond framework which was audited by an independent third party.

As detailed in its sustainability report, in 2019 Livent exceeded or nearly achieved its targets for greenhouse gas emissions, energy intensity, water and waste intensity reduction across the board, five years ahead of schedule. The company has also been focusing on setting appropriate forward-looking targets, following its separation from FMC. Alongside the focus on renewable energy, in the third quarter of 2020, the company announced its commitment to be carbon neutral by 2040, and we discussed how it is planning to meet this target.

On reporting and disclosure, we are encouraged by the company's progress on aligning with global frameworks such as the UN Global Compact, which will improve the transparency and information available to stakeholders.

VOLKSWAGEN, which is headquartered in Germany, is one of the world's largest auto manufacturers

Issues: Environmental, governance – low-carbon transition, culture, board structure

Environmental and governance issues formed an integral part of our internal discussions on Volkswagen, and we therefore set up an initial meeting with the company to address the key risks and opportunities identified.

We discussed the topic of electric vehicles (EVs) in detail, given their importance for the company's overall strategy. We focused on the ambition for EVs within the company, the plans it had in place to meet internal targets and emissions regulations, and how remuneration and company culture is aligned to enable the long-term transition. Volkswagen detailed the targets it has set for vehicle production, the key partnerships it is establishing, how internal resources and investments are being allocated between the EV and traditional internal combustion engine (ICE) businesses, including re-skilling employees, and the commitment the company has made to not launch any ICE models in developed markets beyond 2026 (in line with the goals of the Paris Agreement).

We also discussed how the firms EV strategy and targets are linked to executive remuneration, emissions targets, and how the company has gone about changing its governance and culture in the wake of the Dieselgate scandal. More on this can be found in our 2020 Stewardship Report.

Voting

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

A key theme for our voting activities in 2020 was climate change. We voted for shareholder resolutions on the issue of climate change, often alongside our engagement activities with companies, requesting targets to reduce greenhouse gas emissions and align their business models with the goals of the Paris Agreement. These resolutions can be a useful tool to improve the productivity of engagement with management, even if the resolution fails to win the support of a majority of shareholders.

Key voting examples are given below, more detail is available in our 2020 Stewardship Report.

	2018	%	2019	%	2020	%
Total items voted	**948**		**1025**		**935**	
For	911	96.1	944	92.1	837	89.5
Against	26	2.7	62	6.1	71	7.6
Abstain/withhold/other	11	1.2	19	1.9	27	2.9
Against management	33	3.5	69	6.7	92	9.8
Shareholder proposals	56	5.9	31	3.0	29	3.1

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

Issues: Environmental - climate change

We had a number of productive engagement discussions with the company, as we are a supporting investor in the Climate Action 100+ working group. We were encouraged by the commitments in the revised climate roadmap released in February 2020 – in particular, the pledges to reach carbon neutral global operations by 2030 and to reduce the net carbon intensity of energy produced by at least 50% by 2050.

However, as it is widely agreed a 50% reduction is not sufficient to limit the increase in temperatures to 2°C above pre-industrial levels, we supported a shareholder resolution filed by Follow This, requesting the company publishes targets aligned with the goals of the Paris Agreement.

JPMORGAN CHASE is a global financial services firm

Issues: Environmental, governance - climate change

We supported a shareholder resolution requesting the company produces a report specifying "if and how it intends to reduce the [greenhouse gas] emissions associated with its lending activities in alignment with the Paris Agreement's goal of maintaining global temperature rise below 1.5°C." We stressed that, as a leading bank around the world, JPMorgan Chase should be striving to find solutions to these problems, and we would like to see a greater commitment from the company. Ruffer supported the shareholder resolution at the 2020 AGM, which was narrowly defeated. However, in October 2020, the company adopted a Paris-aligned financing commitment.

AENA is a leading airport operator, based in Spain

Issue: Environmental – climate change

We supported two resolutions to introduce an annual vote on Aena's climate transition plan, which garnered shareholder and eventually board support. This is the first such measure to win shareholder approval. We are likely to see more Say on Climate votes filed in 2021 and would expect to support them, particularly where we believe there are long-term performance implications from the business proactively addressing climate change-related risks.

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