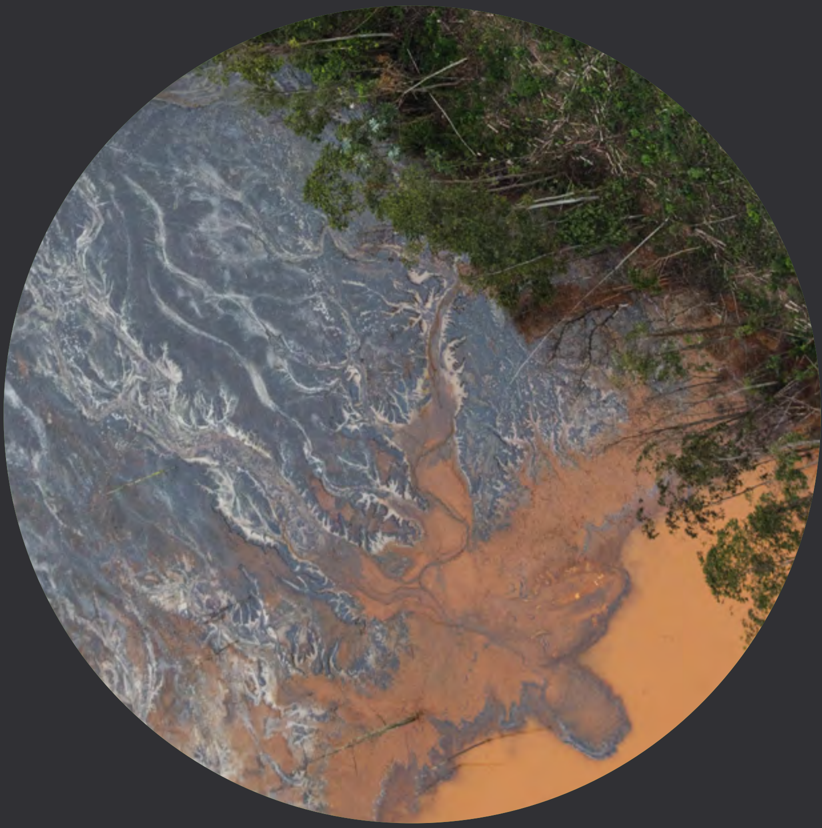
Responsible Investment Report



FOR THE YEAR ENDING 31 DECEMBER 2019

"Following the catastrophic collapse of a tailings dam in Brumadinho, Brazil, in early 2019, a number of investors agreed that more information was needed on which companies had tailings dams and how this risk was being managed."

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An aerial view of Samarco's Fundão Tailings dam that failed in November 2015 near Mariana, in Minas Gerais, Brazil. © João Pina

About Ruffer

Ruffer looks after investments for private clients, financial planners, institutions and charities, in the UK and internationally.

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

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

We are signatories to:

PRI Principles for Responsible Investment

Climate Action 100+ Global Investors Driving Business Transition

We support:

IIGCC Institutional Investors Group on Climate Change

Transition Pathway Initiative

RESPONSIBLE INVESTMENT REPORT

Foreword

CLEMMIE VAUGHAN
Chief Executive

RUFFER HAS BEEN SEEKING TO PUT OUR CLIENTS' INTERESTS FIRST, and to deliver positive returns for them, since we started in 1994. Returns that can be sustained over the long haul, whatever happens in financial markets.

To be good stewards of our clients' assets, and to generate good investment performance, we have always needed to analyse environmental, social and governance (ESG) issues when making investment decisions. For many years, we have been working to bake responsible investing into our investment process for all our clients.

Our approach is evolving all the time. And I'm determined Ruffer walks the walk, not just talks the talk.

This is now the sixth annual report detailing our stewardship activities.

We focus our efforts on engaging with companies, where we believe it can make the biggest positive difference. Sometimes we engage on our own. Sometimes we do it in collaboration with other investors. The topics we cover range widely – from climate change to executive pay, tailings dams to board effectiveness.

We also increased our voting activity last year and tightened our internal voting guidelines, particularly around the independence of directors and on companies' lobbying activities.

Our responsible investment team work closely with our research analysts. In this report, the team present two examples of companies – Equinor and Hennes & Mauritz (H&M) – reflecting the coordinated effort.

Elsewhere, we share some of our thinking, with articles on the geopolitical implications of climate change, diversity and food waste.

Responsible investment at Ruffer

INTEGRATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) CONSIDERATIONS INTO OUR INVESTMENT APPROACH

We believe that investing responsibly will lead to better long-term performance for our clients. As an investment manager with a relatively concentrated portfolio of equity holdings, we believe ESG considerations represent both sources of value and also investment risks. Therefore, fully incorporating these considerations into our investment approach forms an essential part of our responsibility to our clients.

Our decision to invest in companies is based on both fundamental and ESG analysis. Whether it is climate change or indigenous rights, executive pay or workforce safety, we believe our considered approach, focused on determining material risks and opportunities, helps us make better investment decisions. Our dedicated responsible investment team partner closely with the analysts in our research team to identify and evaluate the impacts a company's operations could have on the environment and society. The risks associated with weak corporate governance practices are also evaluated. We use MSCI ESG Research and other relevant sources, such as the Sustainability Accounting Standards Board (SASB), the Transition Pathway Initiative (TPI) and CDP, to inform our analysis. Ruffer became a signatory to the Principles for Responsible Investment (PRI) in January 2016 to demonstrate our commitment to integrating ESG into our investment approach.

STEWARDSHIP: VOTING AND ENGAGEMENT

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 it is also an effective tool to achieve meaningful change. On issues such as climate change, we are a member of the Institutional Investors Group on Climate Change (IIGCC) and we often engage through collaborative initiatives including Climate Action 100+, to which we were a founding investor signatory. We take the opportunity to vote seriously because it enables us to encourage boards and management teams to consider and address areas that we are concerned about. We have also co-filed shareholder resolutions where we felt this was the most appropriate course of action.

OUR FRAMEWORK

RESTRICTIONS

Ruffer offers clients the possibility of incorporating their values and beliefs into our investment approach. We have been managing portfolios with bespoke ethical investment policies since 2006. One advantage of a segregated portfolio is the transparency it provides, giving reassurance to our clients that we are investing in line with their ethical investment restrictions. We use a third-party ethical screening and research provider, which offers a wide range of exclusion criteria to ensure our clients' preferences are met.

The geopolitical implications of a changing climate

The valuation of financial assets is based on expectations of future returns – but what if the next half-century is vastly different from the previous one?

Environmental changes are affecting companies and countries in a number of ways. Investors need to understand the key environmental trends and grapple with the implications for geopolitics and markets.

ALEXIA PALACIOS
Analyst, Responsible Investment

SINCE THE LATE EIGHTEENTH CENTURY, societies have experienced an unprecedented increase in material wealth. This has lifted billions out of poverty and those born today have, on average, a better quality of life and broader opportunities according to the Human Development Index. Yet industrialisation – the driver of this material progress – has had a devastating effect on the world's natural capital. Consequently, the world is facing a significant loss of biodiversity, primarily caused by loss of habitat, pollution, acidification of the oceans and climate change.

Financial assets ultimately derive their value from the real world, so the increase in financial capital – to the detriment of natural capital – cannot continue indefinitely on a planet with finite resources. The valuation of financial assets is based on expectations of future returns, but the half-century to come may be environmentally very different from the one just passed. Variability in the natural world is increasing sharply, whether that's in temperature, rainfall or the strength of winds. Currently, neither the changing outlook nor the capacity for greater variability seem to be sufficiently incorporated into expectations of the future and, therefore, into the valuations of financial assets.

GROWTH AND THE GREENHOUSE

The Earth's temperature has fluctuated naturally for many millennia, but since the Industrial Revolution, global economic growth has been inextricably linked to the burning of fossil fuels. Through the emission of greenhouse gases, this has contributed to an increase of 1.1°C in global average temperatures above pre-industrial levels.[1] As the world's population grows and more people aspire to the lifestyle enjoyed by those in developed countries, the global demand for energy continues to rise. Although progress has been made in de-coupling economic growth from the emission of greenhouse gases, so far this has only been achieved in a few countries. Overall, greenhouse gas emissions are still increasing.

The environmental impacts of climate change – such as storms, extreme temperatures, wildfires and droughts – are already affecting millions of people, disrupting global supply chains and inflicting damage to property and businesses (see box). And while it is difficult to attribute a particular event to climate change, the frequency and severity of extreme weather events and natural disasters are increasing.

A more volatile climate presents growing risks to the companies in which we invest, underscoring the need for them to manage their exposure to climate events to ensure their long-term financial performance. Yet some businesses are underestimating the urgency and significance of these chronic events. Analysing these risks matters – which is one of many reasons why Ruffer fully integrates environmental, social and governance (ESG) considerations into our investment process. But the implications for both companies and countries go far beyond extreme weather events, because climate change is exacerbating geopolitical tensions.

WATER AND CONFLICT

Geopolitics and commodities have long been interlinked. Oil has dominated such interactions for the past 100 years or so and has contributed – if not directly, then indirectly – to a number of conflicts, particularly in the Middle East. Yet oil is no longer considered a scarce resource partly because shale oil production has allowed the United States to shift from being an importer to an exporter of oil and partly

1 WMO, www.public.wmo.int

EXTREME WEATHER IN ACTION

STORMS

The strength of storms, be they hurricanes in the Caribbean or typhoons in Asia, fuelled by higher ocean temperatures, are leading to significant economic losses. In 2019, Hurricane Dorian in the Bahamas and Cyclone Idai in Southern Africa brought devastation to particularly vulnerable regions of the world. Although the destruction is often most acute when these storms hit developing countries, the economic losses are still significant for developed ones. Examples include Hurricane Sandy in 2012 and Hurricane Harvey in 2017. When the impact on the local economy is considered, it can be equivalent to that of a financial crisis but occurring in a matter of days.

The magnitude of insured losses has had significant implications for the insurance industry, particularly in 2017 when Hurricane Harvey, along with Hurricanes Irma and Maria, for example, contributed to a profit fall of 85% for German reinsurer Munich Re.[2] Predicting the frequency and severity of such events is vital for the insurance industry, although this is proving to be increasingly challenging given the complexity and interconnectedness of natural disasters caused by climate change.

2 Financial Times (2018), Munich Re slides 5% after profits blown off-course by hurricanes

RECORD TEMPERATURES

Temperature records were shattered in the summer of 2019, with almost 400 new records set in the Northern Hemisphere. July 2019 was the hottest month on record and the 415th consecutive month with temperatures above the twentieth century average.[3] In Europe, there were new highs in Belgium, Germany and the United Kingdom, where Cambridge University Botanical Garden reached 38.7°C. The heatwave across Europe was made more likely and more intense due to human-induced climate change, according to a group of scientists led by the World Weather Attribution.[4]

3 The Washington Post (2019), July was Earth's hottest month since records began

4 World Weather Attribution (2019), Human contribution to the record-breaking July 2019 heatwave in Western Europe

WILDFIRES

In 2019, wildfires affected places from California to Australia, and from the Amazon to the Indonesian rainforest. Perhaps even more shocking were the fires in the Arctic Circle where, in the summer of 2019, 2.6 million hectares of Siberia were ablaze as temperatures soared to over 30ºC. While it is too early to estimate the economic losses from these fires, the Camp Fire, in Northern California in November 2018, caused overall losses of $16.5 billion, the highest wildfire loss on record according to data from Munich Re.[5]

The implications for some companies were serious, not least for the Californian utility company Pacific Gas and Electric (PG&E). It filed for bankruptcy in January 2019, in part due to the billions of dollars in claims it is facing; the Camp Fire is believed to have started when a PG&E power line came in contact with nearby trees.

5 Munich Re (2019), Extreme storms, wildfires and droughts cause heavynatural capital losses in 2018

DROUGHTS

Water is already a scarce resource in many parts of the world and is becoming increasingly so. Some of the world's major cities, including Cape Town and New Delhi, have almost reached Day Zero in recent years – the day when you turn on the taps to find no water coming out. Extreme shortages amplify the inequality between the rich, who can pay for continued access to water, and the poor, who cannot.

Cities and countries don't need to be approaching Day Zero for companies to be severely affected though. The share price of German chemical companies suffered in the autumn of 2018 when the water level in the Rhine fell to a record low, preventing barges from delivering raw materials and leading to the temporary closure of plants. Other water-intensive industries, such as the textile and clothing industry, also face major challenges.

because concerns over climate change are driving an energy transition towards other sources of energy. Water, on the other hand, is arguably the most critical resource for human survival and its scarcity is driving up political tensions, particularly in Asia.

The Tibetan plateau is sometimes known as the ‘third pole’, because its ice fields contain the largest fresh water reserves outside the Arctic and Antarctic. The plateau feeds 10 major rivers, including the Yangtze in China and the Brahmaputra that flows through China, India and Bangladesh. Collectively, these rivers provide drinking water to more than 20% of the world’s population.[6] Historically, glaciers have been effective stores of monsoon rains, acting as huge reservoirs that release this water over time. Climate change has already had a devastating effect on the Tibetan plateau, with glacial retreat accelerating in recent years because the build-up of ice and snow is no longer sufficient to match the run-off.

“Historically, glaciers have been effective stores of monsoon rains, acting as huge reservoirs that release this water over time.”

The geopolitical situation has the potential to become much worse, and quickly. Countries are under pressure to reduce their greenhouse gas emissions to meet the goals of the Paris Agreement and air pollution is a problem in towns and cities across Asia. Against this backdrop, China is developing many more hydroelectric dams along the rivers that flow from the Tibetan plateau. By gaining control of its neighbours’ water supply, China would have colossal leverage – a fact that has not escaped the attention of India and others.

A POLAR SILK ROAD?

The Arctic is also suffering from significant loss of ice where the extent of the sea ice (measured at its minimum in September each year) has fallen, on average, by 12.8% per decade since 1981.[7] To put this in perspective, an area of ice the size of the United Kingdom and Ireland disappeared from the Bering Sea in February 2019, when the extent of the sea ice was supposedly at its maximum. As the disappearance of sea ice

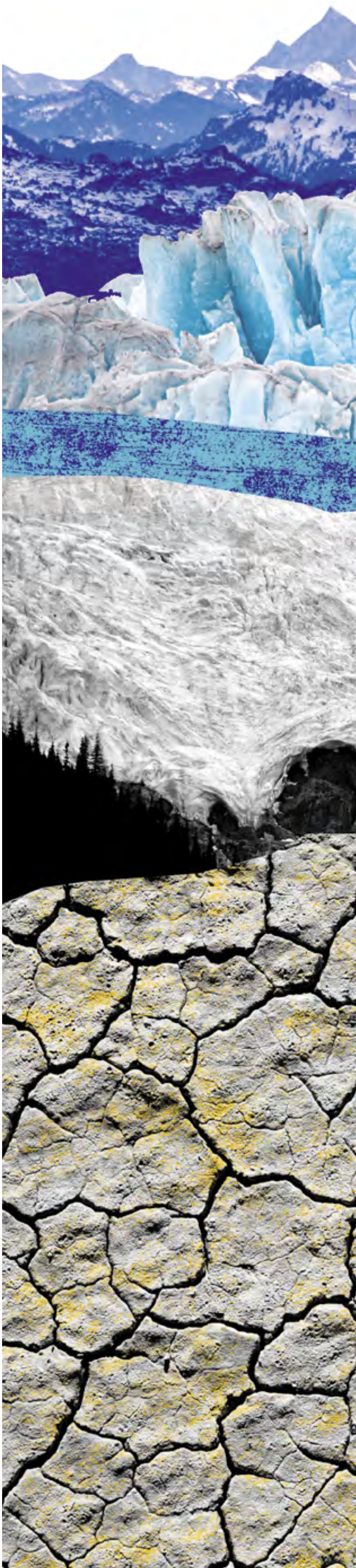
6 China Water Risk Report (2018), No Water, No Growth - Does Asia have enough water to develop?
7 NASA, *www.climate.nasa.gov*

amplifies global warming (because less sunlight is reflected and more is absorbed by the oceans), the extent of sea ice is expected to continue to fall – an example of the acceleration of climate change when particular tipping points are reached.

The melting of the Arctic sea ice is opening up new shipping routes such as the Northern Sea Route – often referred to as the Polar Silk Road – connecting Asia and Europe, which will dramatically reduce distances travelled and journey times. The melting ice will also bring opportunities for mineral and petroleum extraction in areas that were previously covered by permafrost. This is intensifying tensions between Russia and the United States, with other large powers such as China also vying for resources above the Arctic Circle. For decades, the policy of the United States towards the Arctic has been characterised by indifference. The offer to purchase Greenland – an acknowledgement of the island's strategic importance – and its blocking of a joint declaration from the Arctic Council (due to the inclusion of a reference to climate change) are examples of the recent reversal of this policy stance. Russia and China, meanwhile, have both taken advantage of the United States' absence to further their commercial and, in the case of Russia, military interests in the region. Russia has spent billions of pounds building new military bases, and upgrading abandoned ones, to give Moscow almost complete coverage of its northern coastline since announcing its intention to increase its presence in the region in its Military Doctrine of 2014. Russia has also conducted significant military operations, prompting NATO in 2018 to conduct its largest operation since the Cold War, involving 50,000 troops in northern Norway. Opportunities due to the retreating sea ice have been particularly embraced by China, which has invested around $90 billion in the Arctic region since 2012, including the financing of strategic assets in both Greenland and Russia.[8] Given that the United States is unlikely to accept Russian and Chinese dominance in the region, the Arctic could become a geopolitical flashpoint.

THE CLIMATE AND MIGRATION

For thousands of years, environmental changes have shaped patterns and levels of human migration, which is driven by both extreme weather events and natural disasters but also by slow-onset events including desertification, loss of biodiversity and rising sea levels. During the first six months of 2019,



8 Financial Times (2019), US envoy warns of Chinese and Russian aggression in Arctic

7 million people were displaced as a result of weather-related disasters.[9] Parts of Central America, as well as Northern Africa and the Middle East, have already been seriously affected by environmental changes, including a sharp reduction in rainfall that has contributed to increasing migration to the United States and Europe.

> "Understanding and navigating our changing environment, therefore, will be an investment challenge for many decades to come."

Currently, climate change migrants cannot claim refugee status, because climate change falls outside the scope of the 1951 Refugee Convention. In the current political environment, this issue is proving particularly difficult to solve. While migration has many causes – and demographic, political, economic and environmental issues are often difficult to untangle – it is prudent to assume that if environmental migration continues to increase, it will add to tensions within and between countries.

A WORD TO INVESTORS

The effects of climate change can be felt in all regions of the world, involving the largest countries, stoking political tensions and intensifying geopolitical instability.

The longer greenhouse gas emissions continue to rise, the worse the effects of climate change will be. This will greatly affect geopolitical instability and make the political co-operation necessary to solve the problem of climate change significantly harder to achieve.

For investors, markets don't yet seem to be accounting appropriately for these changes, which creates both risks and opportunities. Understanding and navigating our changing environment, therefore, will be an investment challenge for many decades to come.

9 Internal Displacement Monitoring Centre, *www.internal-displacement.org*

"We think that shareholder resolutions are likely to have an increasingly important role to play in tackling climate change in the years ahead."

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A storm approaching Cape Shirreff. Photo by NOAA on Unsplash

Stewardship

Review of voting and engagement activities

WE ACT AS STEWARDS OF OUR CLIENTS' ASSETS and it is our duty to ensure that the companies in which we invest act in the long-term interests of their stakeholders. We use our judgement to determine when to engage and how to vote at shareholder meetings in order to best protect the economic interests of our clients.

Below we explain the reasons behind our chosen environmental, social and governance (ESG) themes, before setting out in detail how we voted at shareholder meetings and how we engaged with companies.

NOTABLE VOTING AND ENGAGEMENT ACTIVITIES IN 2019

VOTING AGAINST THE RE-ELECTION OF EXXONMOBIL'S NON-EXECUTIVE DIRECTORS

CO-FILING A SHAREHOLDER RESOLUTION AT BP

CO-LEADING THE ENGAGEMENT WITH ARCELORMITTAL FOR CLIMATE ACTION 100+

PARTICIPATING IN THE INVESTOR MINING AND TAILINGS SAFETY INITIATIVE

ENGAGING WITH MITSUBISHI ESTATE ON ITS TAKEOVER DEFENCE MEASURE

Stewardship themes

ALTHOUGH WE EXAMINE THE RISKS AND OPPORTUNITIES of each company separately, every year there are themes, often reflecting industry trends, that influence our voting and engagement activities with a number of companies. In 2019, we continued with the themes of climate change and lobbying, specifically political contributions and trade association memberships. Following the catastrophic collapse of a dam in Brumadinho, Brazil, in early 2019, we added an additional theme – tailings dams.

Climate change

We are engaging with management at companies that make a significant contribution to global greenhouse gas emissions to encourage them to adapt their business models to align with the transition to a low-carbon economy. As concerns about climate change have intensified, investors' desire to engage with companies on this issue has grown. Due to the scale and global nature of the problem a number of shareholder initiatives, including Climate Action 100+, have been launched. We believe in the power of collaborative engagement and were a founding investor signatory to Climate Action 100+.

In our sign-on statement to Climate Action 100+, we acknowledged that we are 'aware of the risks climate change presents to our portfolios and asset values in the short, medium and long term. We therefore support the Paris Agreement and the need for the world to transition to a lower carbon economy consistent with a goal of keeping the increase in global temperature this century to well below 2°C above pre-industrial levels'.[1]

As part of the initiative, we are actively involved in the working groups engaging with a number of European and American companies. For those companies in which our clients' assets are invested that are not among the 161 covered by Climate Action 100+, we continue to engage on a wide range of climate-related issues.

As well as being a member of the Institutional Investors Group on Climate Change (IIGCC), we are also supportive of the IIGCC's shareholder resolution subgroup, and we think that shareholder resolutions are likely to have an increasingly important role to play in tackling climate change in the years ahead. We see shareholder resolutions as a useful communication tool when engagement has not been successful because they give companies a clear picture of the preferences of their shareholders.

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. It is engaging with 161 companies and by the end of 2019, the initiative was supported by more than 370 investors representing $35 trillion in assets under management.[2]

1 Climate Action 100+, www.climateaction100.org
2 Climate Action 100+ (2019), Progress report

An insight into an engagement on climate change with **ARCELORMITTAL**

OVER THE PAST YEAR we have intensified our engagements with companies on the issue of climate change. This reflects the growing interest in, and concern about, climate change in many countries around the world. But it also, importantly, reflects the increasing acknowledgement of the risks, both physical and transitional, that climate change poses for financial markets. Consequently, our engagements have focused not just on oil and gas companies, but also on companies in industries from mining to delivery services.

One of the most carbon intensive companies in our portfolios is ArcelorMittal, the largest steel producer in Europe. The current production process for steel is hugely carbon intensive as it uses significant amounts of metallurgical coal to reduce the iron ore into iron and subsequently into steel. This process has been made much more efficient over the last few decades, but expected future efficiency gains are not going to be sufficient to meet the goals of the Paris Agreement. Much of the infrastructure that will be needed to transition to a low-carbon economy, such as wind turbines, requires a lot of steel. Consequently, it is not that we will need less steel, but arguably we will need more, given its properties enable it to be reused and recycled (unlike many other products). The development of new processes that drastically reduce the carbon intensity of steel production will therefore benefit both the environment and the company.

We have been engaging with ArcelorMittal through Climate Action 100+, where we are one of the joint-lead investors. We have been intensively engaging with the company over the last 12 months or so. We attended the company's Annual General Meeting (AGM) in Luxembourg in May 2019, where we asked the company to set ambitious targets to reduce its greenhouse gas emissions and to review its lobbying activities. We felt it was important to attend the AGM to make a statement to the whole board, including Mr Mittal as CEO and Chair of the Board, to introduce the Climate Action 100+ initiative and explain what it is trying to achieve. We had a private meeting with Mr Mittal after the AGM, which was helpful in allowing us to provide context as to what we are asking the company to do and to build a common understanding. Mr Mittal told senior executives in the meeting to work with us more closely and give us the information we were asking for, and this has led to a considerable change in the tone of the engagement.

We have had numerous meetings with ArcelorMittal since and we are encouraged by the commitments that the company has recently made, including for its European operations to reduce its emissions by 30% by 2030 and to be carbon neutral by 2050, which will require the development of new production processes. Our engagement with the company is continuing and we look forward to further constructive discussions in 2020.

ALEXIA PALACIOS
Analyst, Responsible Investment

Lobbying

POLITICAL CONTRIBUTIONS AND TRADE ASSOCIATION MEMBERSHIPS

When analysing a company, we think it is prudent to understand the internal governance processes around its political contributions and its trade association memberships. This is an important issue given the effectiveness of some trade associations in lobbying governments around the world, particularly in relation to climate-change regulation. It is important to Ruffer that a company's stated policy on climate change is aligned with its lobbying activities and practices. In 2018 and 2019, we engaged with several companies on increasing transparency around their lobbying activities. Specifically, we asked for public disclosure of political contributions and trade association memberships. We also voted for a number of shareholder resolutions asking for additional disclosure of lobbying-related activities, including at General Motors and Walt Disney.

"This is an important issue given the effectiveness of some trade associations in lobbying governments around the world."

Mineral tailings mud blocking a road in Brumadinho, Brazil. ©Lucas Ninno/Getty

Tailings dams

Following the catastrophic collapse of a tailings dam in Brumadinho, Brazil, in early 2019, a number of investors agreed that more information was needed on which companies had tailings dams and how this risk was being managed. As a result, the Investor Mining and Tailings Safety Initiative was set up, led by the Church of England Pensions Board and the Council on Ethics of the Swedish AP Funds, with the aim of creating a complete list of tailings dams around the world and an international standard for safety based on the serious consequences of failure.

Ruffer is a supporter of the Investor Mining and Tailings Safety Initiative and we hosted a summit in October 2019 at our London office, coordinated by the Church of England Pensions Board and the Council on Ethics of the Swedish AP Funds. The event brought together a broad range of stakeholders, from the CEO of Anglo American and other company representatives to asset owners, investment managers, industry associations such as the International Council of Mining and Metals (ICMM), and global organisations such as the United Nations Environment Programme Finance Initiative (UNEP FI) and the World Economic Forum. We also heard directly from the communities affected by recent failures of tailings dams in Brazil, which highlighted both the urgency and the importance of what this initiative is striving to achieve.

We have engaged with the companies that have responded to the initiative to understand fully how any changes have been put into effect and how senior management are creating a culture where, if at all possible, catastrophic events are averted. We have also engaged with the companies that have so far not responded to the initiative to stress how important this issue is to investors.

Tailings dams

Physical structures used to store by-products from mining activities. Mined rock is ground and mixed with chemicals and water to extract the minerals and metals. Tailings are what are left once the minerals and metals have been extracted and usually take the form of a slurry of fine particles, but can be solid or liquid.

VOTING SUMMARY

Voting policy

THE OPPORTUNITY TO VOTE enables us to encourage boards and management teams to consider and address areas that we are concerned about, along with those areas that we want to support, and so we take our voting responsibilities seriously. Our policy with respect to voting reflects both our investment objectives and our investment approach. It is Ruffer's policy to vote on Annual General Meeting (AGM) and Extraordinary General Meeting (EGM) resolutions, including shareholder resolutions as well as corporate actions. We vote on our total shareholding of the companies held within the Ruffer Absolute Return Fund, Ruffer Total Return Fund, Ruffer Total Return International, Ruffer Investment Company and the Charity Assets Trust. Voting on companies not held within these funds is subject to materiality considerations.

The 2019 aggregated voting data presented here comprises our votes across Ruffer funds, institutional and private client holdings.

The following chart shows the geographic distribution of meetings at which we voted.

The number of company meetings we have voted at has expanded significantly over the past few years: from 233 in 2017 to 282 in 2019, an increase of 21%. Ruffer voted against management on 155 resolutions in 2019, compared with 107 in 2017, an increase both in absolute terms and as a proportion of votes cast.

Voting process

RUFFER HAS AN INTERNAL VOTING POLICY as well as access to proxy voting research, currently from Institutional Shareholder Services (ISS), to assist analysts in their assessment of resolutions and the identification of contentious issues. Although we take note of proxy advisers' voting recommendations, we do not delegate or outsource our stewardship activities when deciding how to vote on our clients' shares.

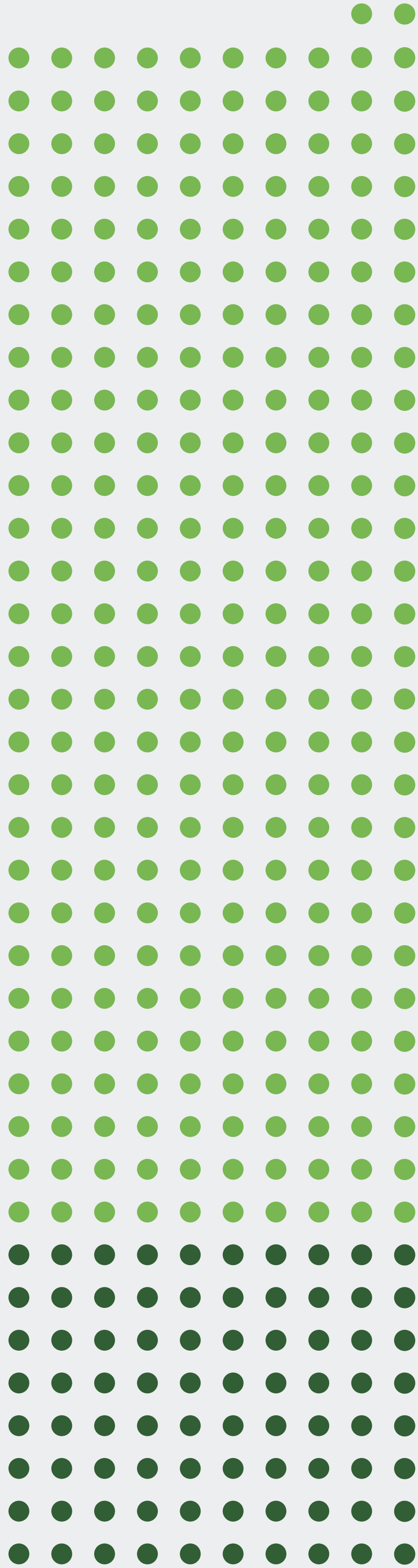
Each research analyst, supported by our responsible investment team, reviews the relevant issues on a case-by-case basis and exercises their judgement, based on their in-depth knowledge of the company. If there are any controversial resolutions, a discussion is convened with senior investment staff and, if agreement cannot be reached, there is an option to escalate the decision to the Head of Research or the Chief Investment Officer. We look to discuss with companies any relevant or material issue that could affect our investment and we ask for additional information or an explanation, if necessary, to inform our decisions. If we decide to vote against management, we endeavour to communicate this decision to the company before the vote, along with our explanation for doing so.

VOTING BREAKDOWN 2019

Total items voted	2,870	
For	**2,692**	93.8%
Against	**143**	5.0%
Abstain or Withheld	**35**	1.2%
Against management	**155**	5.4%
Shareholder proposals	**61**	2.1%

282

MEETINGS VOTED



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MEETINGS WITH AT LEAST ONE VOTE AGAINST, WITHHOLD OR ABSTAIN

Voting against management resolutions

VOTING IS A POWERFUL TOOL to encourage boards and management teams to consider and address areas that we are concerned about, particularly if engagement has not been successful. We highlight our votes against management to demonstrate that we make our voting decisions independently. We later discuss shareholder resolutions that we supported against the recommendations of management.

In 2019, we voted against management predominately on issues relating to the independence and effectiveness of directors, remuneration policies and reports and capital structure. These companies varied in size, sector and location, from an American oil and gas company to a cyber security company based in the UK.

The chart opposite shows votes against management by type of resolution.

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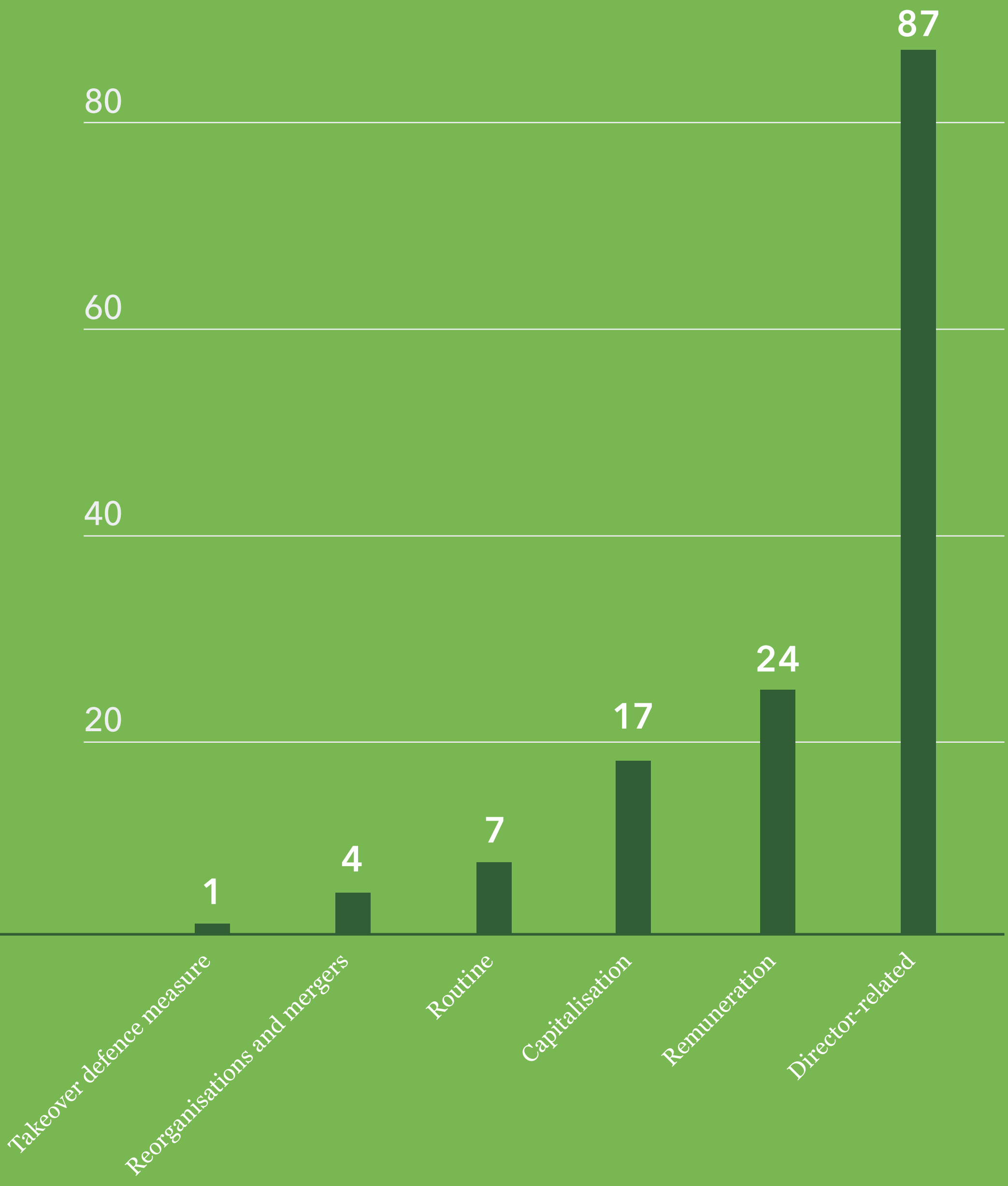
VOTES AGAINST MANAGEMENT RESOLUTIONS

VOTES AGAINST MANAGEMENT RESOLUTIONS



Non-executive directors, board structure and independence

WE THINK IT IS OF FUNDAMENTAL IMPORTANCE that the majority of board members are independent to provide a robust oversight of, and counterbalance to, a company's management. One measure of independence is how long a director has served on the board and we have incorporated this into our internal voting policy.

Taking into account the average tenure of members of the board, the regions in which companies are domiciled and the sectors in which companies operate, we did not support the re-election of a number of directors in 2019 because of concerns that they were not independent. We voted against the re-election of five directors at Aptiv, six at McKesson and five at National Oilwell Varco. We have noted that the issue of board tenure is particularly significant in the mining sector, where we abstained on the re-election of directors at Barrick Gold, Kinross Gold, Newmont Mining and Wheaton Precious Metals, and we will be engaging with these companies on this issue.

"We did not support the re-election of a number of directors in 2019 because of concerns that they were not independent."

EXXONMOBIL is a multinational oil and gas company with upstream, downstream and a chemicals business. The company is headquartered in the US.

Issues: Environmental, governance – climate change

We voted against the re-election of all the non-executive directors at ExxonMobil Corporation because we did not think they were representing the best interests of shareholders owing to the slow progress of the engagement with the Climate Action 100+ initiative. This included not allowing a meeting with the non-executive directors, nor permitting shareholders to vote on a resolution on climate change filed by the New York State Common Retirement Fund and the Church Commissioners for England. More information can be found in the engagement activities section.

Founded in 2000, **OCADO** is an online grocery retailer headquartered in the United Kingdom and operates internationally. It is a leader in technology for online retailing, logistics and distribution.

Issues: Governance – board structure

We voted against the re-election of the Chair of the Board, who also serves as the Chair of the Nomination Committee, because we are not comfortable with the board structure and believe the company is being slow to rectify the situation. In particular, we do not think there are a sufficient number of independent directors on the board. We noted the assurances in the annual report that the structure of the board would be dealt with in the medium term, however we felt that this issue should have been an immediate priority. We wrote to the Chair of the Board prior to the AGM to inform him that we would be voting against his re-election and to explain our concerns.

Remuneration policies and reports

REMUNERATION CONTINUED TO BE OF INTEREST around the world in 2019, particularly in the US where executive pay has traditionally been considerably higher than in the UK or Japan. It is Ruffer's view that a well-defined remuneration policy must link the performance and behaviour of management to a company's strategy and long-term value creation. This should be guided by the overarching principle of aligning the interests of management with shareholders. We believe that a company's executive remuneration policy is significant in 'setting the right tone at the top' and an important driver of effective pay policies at all levels of a company.

At Ruffer, we analyse remuneration policies and reports and vote against them if we do not think they are appropriate. In 2019, we voted against management's proposals on remuneration at McKesson, Sophos and Whitbread.

SOPHOS

Sophos is a cyber security company operating in Europe, Africa and the Middle East.

Issues: Governance – remuneration

We engaged on the upcoming remuneration policy change, specifically around the time horizon of long-term incentives and the way the company selects its peers and chooses its performance measures. The company did not significantly change its proposed remuneration policy following this discussion and so we voted against it at the AGM.

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

Issues: Governance – remuneration, lobbying and cyber security

REMUNERATION: Despite a majority of shareholders, including Ruffer, voting against the resolution to ratify executive officers' compensation in 2018, we felt the size of the award proposed in 2019 was still too large and the conditions were not demanding enough for us to support it. We engaged with the company and initially voted against the proposal, informing the company of our decision. A few days before the AGM, the company substantially reduced the planned increases in the CEO's compensation and made the requirements more onerous. Consequently, we decided to support the revised proposal given the significant contribution the CEO continues to make to the company.

LOBBYING AND CYBER SECURITY: We voted for two shareholder resolutions that management recommended voting against. The first asked for additional disclosure on both direct and indirect lobbying-related activities. This is an important issue, particularly in the US due to the nature of the political system, given the effectiveness of trade associations in lobbying governments around the world. The additional information would allow us to make a better-informed investment decision and so we supported the resolution. The second resolution asked for an assessment to include cyber security and data privacy measures in the determination of executive remuneration. Given the increase in regulation globally in these areas, and the shift in the company's business model, we support this alignment. We informed the company before the AGM that we would be voting in favour of these resolutions.

> "We decided to support the revised proposal given the significant contribution the CEO continues to make to the company."

Voting for shareholder resolutions against management recommendation

There were a number of instances where we voted for shareholder resolutions that company management had recommended voting against.

POLITICAL CONTRIBUTIONS, LOBBYING PAYMENTS AND POLICIES

We engaged and voted on a number of shareholder resolutions requesting additional disclosure on political contributions and trade association memberships in 2018 and 2019. At ExxonMobil's AGM in May, we supported a shareholder resolution, voting against the recommendation of management, to request additional disclosure of the company's lobbying-related expenditures and board-level oversight of this spending. We also voted against the recommendation of management at Walt Disney's AGM in March (see previous page), General Motors' AGM in June and McKesson's AGM in July, supporting shareholder resolutions on improving disclosure and governance of lobbying-related expenditures.

We believe it is important for investors to understand which organisations a company supports and we will continue to put pressure on companies to improve disclosure and provide greater transparency. We have incorporated this theme into our internal voting policy because we believe these disclosures enable us to make better informed investment decisions.

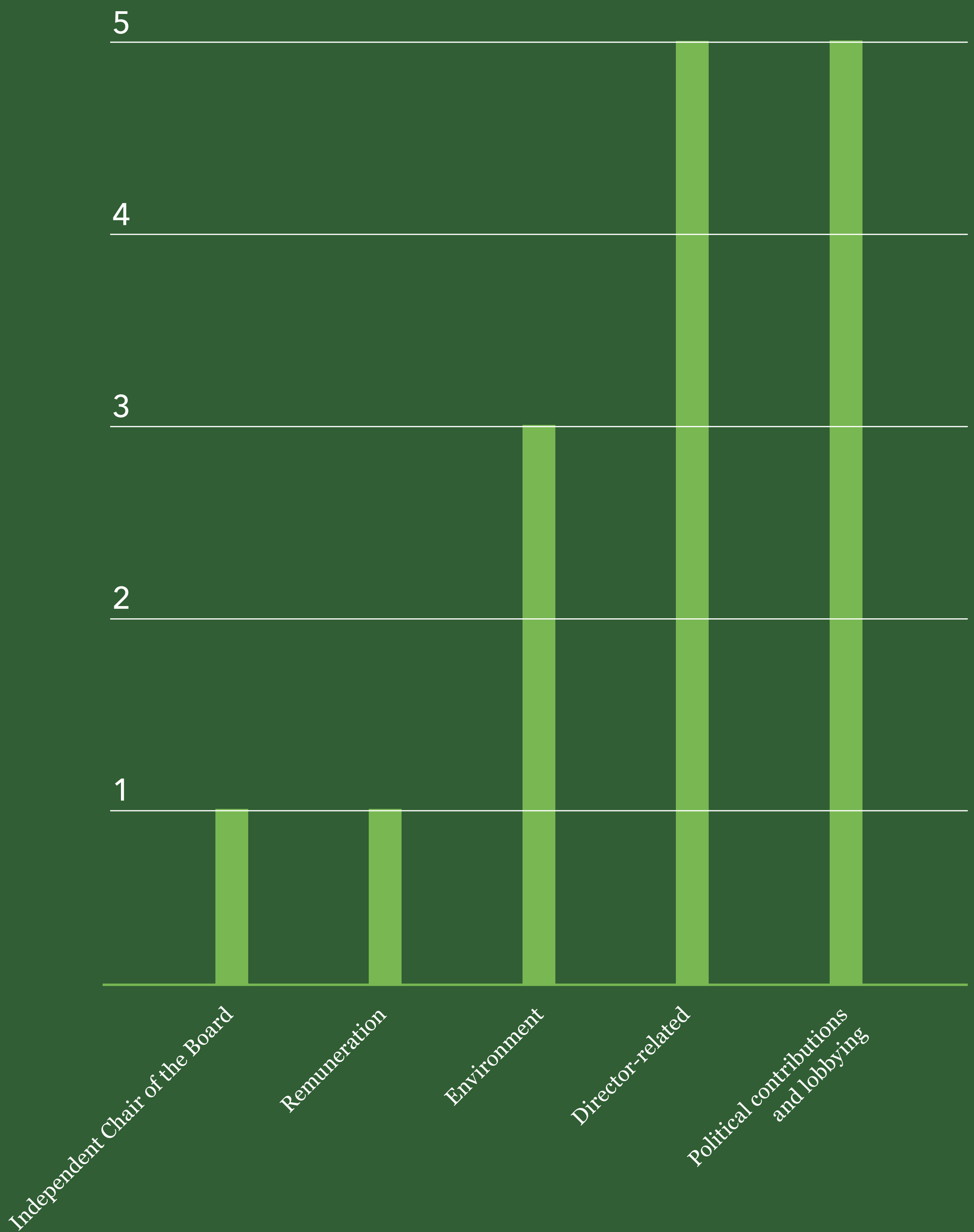
CLIMATE CHANGE

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.

Paris Agreement

A global agreement reached in December 2015 at the United Nations Climate Change Conference in Paris and ratified in October 2016 with the aim of limiting the global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

15 VOTES FOR SHAREHOLDER RESOLUTIONS AGAINST MANAGEMENT RECOMMENDATION



Engagement summary

Ruffer believes that investor engagement is an effective tool to achieve meaningful change and we are committed to engaging with companies in which our clients' assets are invested on a wide range of topics.

In this section, we highlight significant ESG engagements and, where possible, show the outcome or whether the issues are still under review.

ENVIRONMENT

CLIMATE CHANGE

- Setting short, medium and long-term greenhouse gas emissions reduction targets
- Achievement of targets linked to executive remuneration
- Alignment of business strategy and capital expenditure with the goals of the Paris Agreement
- Joining the Energy Transitions Commission
- Management and board oversight of climate-related risks

DATA DISCLOSURE

- Greenhouse gas emissions (scope 1, 2 and 3)
- Climate scenario analysis
- Alignment with the Task Force on Climate-related Financial Disclosures (TCFD)
- Life cycle analysis of products

WATER

- Reducing consumption, particularly in scarce regions

EXXONMOBIL

"We encouraged the company to reconsider the disclosure of greenhouse gas emissions in relation to its products and the setting of specific short, medium and long-term greenhouse gas emissions reduction targets."

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SOCIAL

EMPLOYEE AND/OR COMMUNITY RELATIONS

- Ensuring a company's social licence to operate
- Health and safety issues
- Indigenous rights

TAILINGS DAMS

- Ensuring the safety of a company's tailings dams
- Publicly disclosing comparable data on tailings dams

NEWMONT GOLDCORP

"We spoke about the company's goal to build sustainable relationships with the communities surrounding its mines and how it has learnt lessons from the past."

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GOVERNANCE

BOARD STRUCTURE

- Independence of non-executive directors
- Ensuring effective decision making
- Diversity of skills

JAPANESE GOVERNANCE

- Unwinding of cross-shareholdings to improve returns on equity
- Removing takeover defence measures

LOBBYING

- Transparency of political donations and trade association memberships

REMUNERATION

- Policies with challenging and well-defined criteria to ensure management aren't rewarded for poor performance

STRATEGY AND CAPITAL STRUCTURE

- To support the creation of shareholder value

WHITBREAD

"We welcomed the reduction in the executive pension contribution rate to align it with the rate received by senior management, but we questioned why it was not being reduced to the rate received by the wider workforce."

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ACTIVISION BLIZZARD is an interactive gaming company based in California that develops and distributes content and services.

Conference call with Justin Brown, Vice President – Compensation, and Katy Murray, Vice President – Securities and Corporate Governance

Issues: Governance – board structure and independence, succession planning

We discussed succession planning issues, in particular with regard to the independence of directors given the company has three long-serving members on its board who are well regarded in the technology industry. We also highlighted our concerns that the Chair of the Audit Committee is not independent, having served on the board for more than 20 years. The company does not have a fully independent audit or remuneration committee, which in our view is critical to ensure a robust oversight of management and for designing appropriate incentive structures. We also discussed the effectiveness of the board and how the company is assessing this. The company stated that this is assessed on an annual basis and one of the measures in addressing the entrenchment of the board is ensuring that non-executive directors meet regularly, independently of management. We will continue to engage with the company, particularly on succession planning issues.

ARCELORMITTAL is one of the world's leading steel and mining companies. It is headquartered in Luxembourg and is Europe's largest steel producer.

We joined the Climate Action 100+ working group engaging with ArcelorMittal in early 2019. In May 2019 were asked to become one of the joint leads of the group. We have had numerous in-depth discussions with the company over the year, which have led to some encouraging commitments. The company produced its first climate action report in 2019, which includes scenario analysis and sets a long-term ambition for its European operations to be carbon neutral by 2050. We praised the company for the report, given the range of topics it covered and the clarity and detail of the analysis. We welcomed the public disclosure of the low-carbon projects currently being worked on and we pressed the company to include more information about the progress of these, including when key decisions will be made. The company spoke about how, in the shorter term, it is focusing on improving the energy efficiency of its production process, while longer term it is concentrating on developing low, or zero, carbon production processes for steel and how quickly these can be scaled up. The company stressed that a supportive policy environment will be fundamental to scaling these projects.

Much of the infrastructure that will be needed to transition to a low-carbon economy, such as wind turbines, requires a lot of steel. Therefore, the development of new processes that drastically reduce the carbon intensity of steel production will benefit both the environment and the company. We were also encouraged by the greenhouse gas reduction target of 30% by 2030 that the company set for its European operations in December 2019.

We have listed our most significant discussions with ArcelorMittal over the year on the following pages:

ArcelorMittal

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

We attended ArcelorMittal's AGM in Luxembourg in May to make a statement and ask questions alongside the other lead investors of the Climate Action 100+ working group. Our questions focused on what actions the company will take if it identifies material misalignment between its policy on climate change and that of the trade associations of which it is a member. Mr Mittal would not commit to taking action if material misalignment was identified, but said the company would consider its next steps once the review of its trade association memberships had been conducted. Additionally we asked whether the company would commit to setting science-based targets. The company does have a target to reduce its greenhouse gas emissions, but this is not ambitious enough to align with the goals of the Paris Agreement. Mr Mittal committed to establishing a target for 2030 in 2020, but said further progress needed to be made with the methodology before the company could set a science-based target. Other investors from the Climate Action 100+ working group asked whether Mr Mittal would join the Energy Transitions Commission (ETC) and whether the company would conduct scenario analysis in line with the goals of the Paris Agreement. Mr Mittal confirmed ArcelorMittal would join the ETC and the company's climate action report would include scenario analysis. These points were discussed in more detail in a private meeting with Mr Mittal and senior executives following the AGM.

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.

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.

Group meeting with Brian Aranha, Executive Vice President; Alan Knight, General Manager Corporate Responsibility and Sustainability; Nicola Davidson, Vice President Corporate Communications and Corporate Responsibility; Annie Heaton, Head of Sustainability Reporting; and other senior colleagues

Issues: Environmental, governance – climate change, remuneration

The three lead investors of the Climate Action 100+ working group provided feedback to the company on its first climate action report, as discussed above. We also followed up on the questions we raised at the AGM on the review of the company's memberships of trade associations, when Mr Mittal had committed to look at where there were material misalignments between the policy of the company and that of the trade associations on the issue of climate change. We emphasised that disclosure and transparency around how misalignment is measured is very important, along with the governance and oversight of these memberships. We pushed the company to release this report publicly.

We discussed targets to reduce greenhouse gas emissions in detail, given the company announced an ambition in its climate action report to become carbon neutral in Europe by 2050 and said it will set a target for 2030 in 2020. We praised the company for the work it has done with the science-based targets initiative to create a methodology for steel companies. It was stressed that we would like the 2030 target to be science-based and that achieving the target should be included as a determinant of executive remuneration.

BP is a global energy business, operating in 78 countries with around 73,000 employees.

Co-filed shareholder resolution

Issues: Environmental – climate change

Filing a shareholder resolution

Subject to ownership and other criteria, which vary between countries, shareholders have the right to submit a resolution to be included on the ballot at a company's AGM. These resolutions are often co-filed by a number of investors who want to indicate their support for the resolution to the company's management.

Given the continuing discussions that the Climate Action 100+ initiative was having with the company, the lead investors of the working group decided it was important to file a shareholder resolution in 2019. The resolution urged the company to set out a business strategy consistent with the goals of the Paris Agreement. Specifically it asked the company to disclose:

- how it evaluates the consistency of each new material capital expenditure investment with the Paris goals
- short, medium and long-term metrics and targets that are consistent with the Paris goals
- an annual report to allow investors to determine how much progress has been made

We agreed with what the resolution was asking of BP as this information would better inform our investment decisions, so we co-filed this resolution for all Ruffer funds that held BP. Overall, 9.5% of BP's shareholders co-filed this resolution, an impressive proportion, putting pressure on management to also support the resolution.[1] We voted for the resolution and at the AGM in May 2019, the resolution passed with 99.1% shareholder approval. In addition to the Climate Action 100+ resolution, there was another resolution focused on climate change filed by the Dutch non-governmental organisation Follow This, which Ruffer also supported. Our stewardship activities are continuing.

1 BP, bp.com

CREST NICHOLSON is a housebuilder based in the United Kingdom, founded in 1963.

Meeting with Patrick Bergin, CEO, and Stephen Stone, Executive Chair of the Board

Issues: Governance – board structure and effectiveness, succession planning and remuneration

Given the board structure, with Stephen Stone moving from the role of CEO to Executive Chair of the Board in March 2018, we wanted to understand how effective the board was and how succession planning was progressing. As one of the non-executive directors was on a number of other boards, we asked about how this is managed. We also discussed whether the key performance indicators in the long-term incentive plan were sufficiently ambitious to align the interests of management with those of the company's shareholders. Following this meeting the board was refreshed with a new Non-Executive Chair of the Board appointed along with a new CEO and CFO.

"We also discussed whether the key performance indicators in the long-term incentive plan were sufficiently ambitious to align the interests of management with those of the company's shareholders."

ExxonMobil

EXXONMOBIL is a multinational oil and gas company with upstream, downstream and chemicals business. The company is headquartered in the US.

Ruffer has been intensively engaging with ExxonMobil over the past few years. We voted for a climate change-related shareholder resolution co-filed by the New York State Common Retirement Fund and the Church Commissioners for England in 2016, although it failed to win the support of a majority of shareholders. We also supported a similar resolution in 2017, which was successful, with 62.1% shareholder support, despite not receiving the backing of ExxonMobil's board.[2] The resolution asked the company to report annually on how technological advancement and international climate-change policies focused on keeping temperature increases well below 2°C will affect its business and investment plans. This resolution led to ExxonMobil producing its first energy and carbon summary report in 2018, which analysed climate scenarios that limit the increase in temperatures to 2°C and has formed the basis for further engagement with the company. However, the company's disclosure on this issue did not go far enough, so Ruffer was asked to participate in a Climate Action 100+ group meeting with ExxonMobil in Boston in November 2018 to discuss the core objectives of the initiative of improving governance, reducing emissions and increasing disclosure. ExxonMobil was resistant to pressure to disclose targets to reduce its greenhouse gas emissions in line with the Paris Agreement.

Of the numerous discussions we have had with the company over the year, we have listed the most significant ones on the following pages.

Scenario analysis

A process of examining and determining possible events by considering various potential results or outcomes. With regard to climate change, it is a tool to better understand the potential implications of different increases in global average temperatures on a company's business to enable strategic thinking about long-term risks and opportunities.

2 ExxonMobil (2017), Proxy voting results

Letter sent to Darren Woods, CEO and Chair of the Board, and Neil Hansen, Company Secretary, before the 2019 AGM explaining our voting decisions

Issues: Environmental, governance – climate change

The lead investors of the Climate Action 100+ working group for ExxonMobil, New York State Common Retirement Fund and the Church Commissioners for England, filed a shareholder resolution in 2018 for the 2019 AGM. The resolution asked ExxonMobil to disclose short, medium and long-term greenhouse gas reduction targets that are aligned with the Paris Agreement. As we agreed with the importance of this additional disclosure, we co-filed this resolution in December 2018. ExxonMobil asked the US Securities and Exchange Commission (SEC) for, and was granted, 'no action' relief and so did not include the resolution on its 2019 ballot. We decided to vote at the 2019 AGM against the re-election of all non-executive directors because we did not feel they appropriately represented shareholder concerns regarding climate change and the risks this poses for the company.

In addition, we supported a shareholder resolution asking for an independent Chair of the Board. This is because we believe that the company's unsatisfactory handling of the Climate Action 100+ shareholder proposal, including the decision to seek 'no-action' relief from the SEC and the slow progress of engagement with Climate Action 100+, are intrinsically linked to poor governance. We also supported shareholder resolutions asking for a board committee to assess social and environmental issues and for additional disclosure of the company's lobbying activities. Before the AGM, we wrote to Darren Woods, CEO and Chair of the Board, and Neil Hansen, Company Secretary, to explain why we had voted in this way, so the company understood why we were both frustrated and concerned about its approach to climate change.

ExxonMobil

Conference call with Neil Hansen, Company Secretary; Sherry Englande, Shareholder Relations Manager; Molly Palmer, Shareholder Relations Advisor; and other colleagues

Issues: Environmental, governance – climate change, board effectiveness, non-executive directors

On the call we followed up on the issues raised in our letter sent ahead of the 2019 AGM. In particular, we wanted to understand how effectively the non-executive directors were representing shareholder concerns with regard to climate change. We discussed how board meetings are conducted, how non-executive directors meet independently of management after board meetings, and how climate change is a standing item on the agenda, which includes a review of the company's annual energy outlook. To improve the effectiveness of the board and broaden the perspective of the directors, external speakers are invited to present and this recently included a session on climate change. The annual internal evaluation of board effectiveness is currently being conducted and it is under consideration whether this should be carried out by an independent body in future.

We encouraged the company to reconsider the disclosure of greenhouse gas emissions in relation to its products (scope 3 emissions under the Greenhouse Gas Protocol's corporate standard) and the setting of specific short, medium and long-term greenhouse gas emissions reduction targets.[3] We stressed the importance of further aligning the company's policies on climate change with its memberships of trade associations.

The company spoke at length about its partnerships with universities and other bodies to support the development of new technologies in the field of climate-change mitigation, such as carbon capture and storage, as well as low-emission technologies.

Greenhouse gas emissions

The emission of gases that are capable of absorbing infrared radiation and therefore trap heat in the atmosphere and cause the warming of global temperatures. These emissions can be classified into: scope 1 – direct emissions from the burning of fuels; scope 2 – indirect emissions from heat and electricity used; and scope 3 – all other indirect emissions including the company's upstream and downstream activities. Scope 1 and 2 together are the emissions from a company's operations.

3 Scope 3 emissions, as defined by the Greenhouse Gas Protocol, are all the indirect emissions, except purchased heat and electricity, that occur in the value chain of the reporting company, including both upstream and downstream emissions

Group conference call with Sherry Englande, Shareholder Relations Manager

Issues: Environmental, governance – climate change, energy and carbon summary report

We participated in a Climate Action 100+ group call feeding back to the company on its 2019 energy and carbon summary report. The feedback focused on the question of increased disclosure in line with the Task Force on Climate-related Financial Disclosures (TCFD) and in particular the company's lack of disclosure of its greenhouse gas emissions in relation to its products.

"We also discussed the company's review and decision process with regard to shareholder resolutions and expressed our disappointment with the decision to remove the Climate Action 100+ resolution from the proxy statement."

The Task Force on Climate-related Financial Disclosures (TCFD)

This develops climate-related financial risk disclosures for companies to enable the provision of consistent data to a variety of stakeholders including investors, lenders and insurers.

FOOT LOCKER is a global retailer of shoes and clothing headquartered in New York. It operates over 3,000 shops across 27 countries.

Conference call with Dona Young, Lead Director, and Sheilagh Clarke, General Counsel

Issues: Environmental, governance – carbon footprint, board effectiveness and independence

We discussed succession planning with Foot Locker. The company responded that it will refresh the board over the next three years as a number of directors are retiring and that it is aiming to lower the median age of the board as well as add more directors with digital commerce skills. We highlighted that one of our criteria for non-executive directors to be considered independent is a tenure of less than nine years. The company responded that it applies the US threshold of an age limit of 72 years instead of a tenure limit. On board effectiveness, each year the company conducts surveys on the effectiveness of its board and committees. A full assessment of each board member was conducted by an external party two years ago and we encouraged the company to continue having external board-effectiveness assessments. In terms of the carbon footprint of its products, Foot Locker is working with its suppliers, who manufacture the majority of its products. It is also focusing on reducing the environmental impact of its stores, with measures such as more efficient lightbulbs and improving waste and recycling.

FUJITSU is an information and communication technology company based in Japan, offering technology products and services.

Meeting with Hidehiro Tsukano, previous CFO, and Takeshi Isobe, new CFO

Issues: Governance – board structure and independence

We pushed the company to consider independent directors with a wider range of experience when making appointments to the board. This point was particularly relevant given the Chair of the Nomination Committee was not independent at that time and neither the nomination nor the compensation committees had a majority of independent members. We were encouraged that the company announced an independent Chair of the Nomination Committee later in 2019.

Corporate governance in Japan

Ruffer has invested in Japanese companies for over a decade and good corporate governance practices are something we take seriously. While real change takes time, with inevitable setbacks along the way, we believe there has been a meaningful shift in the country. 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.

> "We were encouraged that the company announced an independent Chair of the Nomination Committee later in 2019."

GENERAL MOTORS is an American automobile manufacturer headquartered in Detroit.

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

We discussed how the transition to an all-electric future is progressing. While it is encouraging to hear that the company's leadership is fully behind this transition, there is currently insufficient disclosure to assess whether the company will comply with fuel economy and greenhouse gas emissions standards. Therefore, we pushed the company to improve its disclosure on this topic.

We also raised the issue of board tenure and what succession plans are in place, while acknowledging that there have been a number of new members in recent years. The company pointed out that it values having a board with a range of experience and that board members with a longer tenure are providing continuity, which is important given it is going through significant changes. We discussed the topic of an independent Chair of the Board and stressed that in most situations we think it is important to ensure the board provides a robust counterbalance to and oversight of management. We do however appreciate that Mary Barra's leadership as CEO and Chair of the Board has ensured the company has acted decisively in difficult circumstances. The company said that it is likely the roles would be split in the future.

On the topic of lobbying disclosure, the corporate governance team at General Motors is conducting a review and will be providing more information to investors later this year. We supported a shareholder resolution at the AGM, as we had done in 2018, on the additional disclosure of the company's lobbying-related activities.

GMO INTERNET is a Japanese provider of internet-related services for corporate customers.

Meeting with Atsuko Fukui, Board member and Head of Investor Relations, and other colleagues

Issues: Governance – takeover defence measure

We discussed at length the company's takeover defence measure, a poison pill, which it is keeping in place despite a number of shareholders stressing their concerns. While we understand the company's view that it does not want to be broken up by a purchaser at this stage in its development, we think it is possible for the company to retain its current structure without need for the poison pill and we highlighted this position.

Takeover defence measures

These can take a number of different forms, one of which is referred to as a 'poison pill'. Often, these allow a company to issue stock warrants at a discount, which have the effect of diluting the ownership of both the company pursuing the hostile takeover and of minority shareholders. This makes a takeover more expensive and so reduces its likelihood.

GOLD FIELDS is a gold producer that operates mines and projects in Australia, Chile, Ghana, Peru and South Africa.

Meeting with Andrew Parsons, Vice President, Group Sustainable Development, and Thomas Mengel, Investor Relations Manager

Issues: Environmental, social, governance – greenhouse gas emissions reduction targets, tailings dams, employee relations and lobbying disclosure

Tailings dams

Physical structures used to store by-products from mining activities. Mined rock is ground and mixed with chemicals and water to extract the minerals and metals. Tailings are what are left once the minerals and metals have been extracted and usually take the form of a slurry of fine particles, but can be solid or liquid.

We spoke at length with the company about its emissions reduction targets, focusing on both its absolute emissions and emission intensity in 2018 and its targets for 2019 and 2020. Given the company operates in regions where electricity supply from local grids is often unreliable, at a number of mines it makes economic as well as environmental sense to install renewable energy-generation capacity, such as solar panels. The topic of long-term targets was also discussed, with the company saying that its preference is to set shorter-term targets given its engineering focus. We pushed the company to consider setting a long-term ambition, in addition to short-term targets. With regard to its tailings dams, the company said that it had received the letter from the Church of England Pensions Board and the Council on Ethics of the Swedish AP Funds, which Ruffer had signed, and it would be providing the information requested in due course.

Following strikes in late 2018 at some of the company's operations, we spoke about how the company has liaised with local and national unions and worked to improve further relations with its employees. It fully appreciated this was a fundamental part of its 'social licence to operate'. We also discussed the company's membership of trade associations and how this process is governed. Although there was a review in 2013, which resulted in the company leaving a number of trade associations, there is no systematic process in place.

IMPERIAL OIL is a Canadian integrated oil company founded in 1880 and headquartered in Calgary. ExxonMobil is the majority shareholder, owning 69.6%.[4]

Climate Action 100+ group conference call with Dave Hughes, Investor Relations Manager, and Susan Nakagawa, Sustainability Manager

Issues: Environmental, governance – climate change and lobbying disclosure

We discussed the company's energy and carbon summary report, which was published in April 2019 and includes a number of climate scenarios, based on ExxonMobil's analysis. However, a 1.5°C temperature rise scenario is not included and we felt the scenarios weren't sufficiently stretching, meaning investors did not have important information about the company's resilience in such a situation. In addition, the company does not report its scope 3 emissions. On the topic of disclosure of trade association memberships, the company has made no material progress in releasing a report of its memberships and so we stressed the importance of this for shareholders given the effectiveness of some trade associations in lobbying governments around the world.

Overall, we are disappointed with the progress Imperial Oil made over 2018 and 2019, particularly in relation to its disclosure of its trade association memberships and how climate-related risks are managed, including how its internal carbon price and scenario analysis are used in making investment decisions. Our investment process is collaborative, with decisions based on both fundamental and ESG analysis, and so this lack of progress was one of the reasons why we decided to reduce our holding in the company. Consequently, we will no longer be co-leading the engagement with Imperial Oil for the Climate Action 100+ initiative.

Social licence to operate

Exists when a company has the approval of its employees, the local community and other stakeholders to continue to operate in the region.

4 Imperial Oil (2018), Annual Report

KINROSS

KINROSS GOLD is a gold mining company headquartered in Toronto. It operates mines and projects in the US, Brazil, Chile, Ghana, Mauritania and Russia.

Meeting with Catherine McLeod-Seltzer, Chair of the Board; Geoff Gold, Executive Vice President Corporate Development & Chief Legal Officer; Ed Opitz, Vice President Safety and Sustainability; and Tom Elliott, Senior Vice President, Investor Relations and Corporate Development

Issues: Environmental, social and governance – tailings dams, board structure, remuneration and takeover defence measure

On the issue of tailings dams, we explained that we are a signatory to the Investor Mining and Tailings Safety Initiative and thanked the company for its response to the questionnaire. We wanted to understand in more detail the changes the company has made to its monitoring of tailings dams, including expanding the independent third-party review from a single expert to a panel of three. We also discussed the importance of company culture in ensuring that potential issues are monitored and reported immediately to the appropriate person so that, if at all possible, catastrophic events are avoided. The company responded that no changes have been necessary as it already has a culture of corporate responsibility and transparency, but it acknowledged the importance of continuous improvement.

"We pushed the company on the issue of board structure, specifically the tenure of directors and its succession plans."

We pushed the company on the issue of board structure, specifically the tenure of directors and its succession plans. While we recognised that progress has been made in refreshing most board members in recent years, we expressed our concern that the Chair of both the Audit and Risk committees is not independent due to the length of time he has served on the board. We are satisfied that he will retire in 2020 and his successor will be announced soon. We also discussed the progress that has been made in improving the diversity of the board, both in terms of gender and range of experience. Given the significant vote against the company's approach to executive remuneration at the 2019 AGM, we discussed what the company has done in terms of engagement with shareholders and the size of the reduction in remuneration. On the issue of the takeover defence measure, we focused on the jurisdictional differences and why the company thinks this measure is justified.

Livent

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

Conference call with Daniel Rosen, Investor Relations

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

Following the separation of Livent from FMC Corporation in late 2018, Livent has been focusing on defining specific policies and key performance indicators for management. The company is in a monitoring phase, with specific metrics being fed back to the sustainability committee. Data sets will be disclosed in the first half of 2020 and the company has also conducted a life cycle analysis of its products. We encouraged the company to respond to ESG data providers, such as MSCI ESG Research, which the company confirmed it would do in 2020. We raised the issue of water consumption, which is a significant consideration given the locations in which the company operates, and discussed how it is developing technology to reduce the amount of water required in its production processes.

Life cycle analysis

Determines the environmental impact of a product through all stages, from its manufacture to its use and finally its disposal or recycling.

MITSUBISHI ELECTRIC is a Japanese company that develops, manufactures and sells electronic equipment including factory automation systems and air-conditioning systems.

Meeting with Takeshi Sugiyama, President & CEO, and other colleagues

Issues: Governance – board structure and independence, cross-shareholdings

We spoke about the structure of the board committees, specifically that the chairs of the audit and compensation committees are not independent. We stressed our concerns and highlighted the importance of independence to allow these committees to provide robust oversight of management. We also engaged with the company on the issue of the independence of directors, given the recent appointment of a director involved in a company linked by cross-shareholdings. We voted against the re-election of this director at the AGM.

MITSUBISHI ESTATE

MITSUBISHI ESTATE is a Japanese real-estate developer, focused on both office and residential properties.

Meeting with Hiroshi Katayama, Board member

Issues: Governance – cross-shareholdings and takeover defence measure

Mr Katayama confirmed that there were still 156 cross-shareholdings, however he did reiterate the company's commitment to reduce this.[5] We stressed our concerns about cross-shareholdings and the company said that in the current environment it is very unlikely to take on new ones. On the topic of its takeover defence measure, a poison pill, the company said that given the feedback it had received from investors, the measure would probably be rejected if it were put to a vote at the AGM in 2019. There were heated discussions among the board about what their next steps should be. We reiterated that we would vote against the measure if it were put to a vote. The company announced in May 2019 that it would drop its takeover defence measure.

Cross-shareholdings

Cross-shareholdings are the reciprocal holdings of equity positions by two or more parties, which are often held to strengthen long-term business relationships between companies. The Japanese governance code challenges this common practice as often the cross-shareholders are not actively executing their stewardship responsibilities. The code states that a company with cross-shareholdings should annually assess these to determine if the risks and opportunities cover its cost of capital and should also disclose its policy to reduce the holdings.

5 Mitsubishi Estate Company Ltd (2018), Corporate Governance presentation

MITSUBISHI HEAVY INDUSTRIES is a Japanese manufacturer, with products including ships, aircraft and industrial machinery. It has 82,000 employees across 400 locations worldwide.

Meetings with Masanori Koguchi, CFO, and other colleagues

Issues: Governance – board structure and independence

We engaged with the company on the independence of directors, specifically on the issue of who can be deemed to be fully independent given many of the directors are involved in companies linked by cross-shareholdings. We pushed the company to consider candidates from outside Japan, particularly if there is a shortage of suitable candidates domestically. On the topic of cross-shareholdings, the company did reduce some holdings last year. We also discussed the separation of the roles of CEO and Chair of the Board and the board structure, because the nomination and compensation committees – despite having a majority of external directors – are both chaired by the CEO.

NEWMONT GOLDCORP is a gold producer operating mines in North America, South America, Australia and Africa. In 2019, Newmont and Goldcorp merged, creating one of the largest gold companies in the world.

Meeting with Tom Palmer, President & CEO, and Nancy Buese, Executive Vice President & CFO

Issues: Environmental and social – community relations, tailings dams

We spoke about the company's goal to build sustainable relationships with the communities surrounding its mines and how it has learnt lessons from the past. Given the recent merger with Goldcorp, we discussed how management are implementing this philosophy across the mines previously managed by Goldcorp and the improvements that have occurred since.

On the issue of tailings dams, we pushed the company to widen its disclosure to encompass the mines previously managed by Goldcorp, which it confirmed it would do in early 2020. We stressed the importance of this issue to investors and were encouraged by the steps being taken by the company, including senior management visiting the tailings dams and additional action to ensure the stability of the structures.

"On the issue of tailings dams, we pushed the company to widen its disclosure."

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

Climate Action 100+ group meeting with Harry Brekelmans, Projects and Technology Director; Susan Shannon, Vice President Government Relations; Jeremy Bentham, Vice President Global Business Environment; and other colleagues

Issues: Environmental, governance – climate change, remuneration and lobbying

At a meeting at the company's headquarters in The Hague, we discussed the progress the company has made since the joint statement with Climate Action 100+ in December 2018. In March 2019, the company set a short term target to reduce its net carbon footprint by 2-3% over the next three years. This target will be tied to executive remuneration. We discussed the seven areas that the company will be working on to achieve this target. We pushed the company to improve its disclosure to allow investors to better understand how important each area is to the achievement of the target and the improvements made so far. We discussed the company's scenario analysis and how this is used to inform its corporate strategy. On the topic of lobbying and memberships of trade associations, we recognised the progress the company has made so far, including in publishing a detailed report in April 2019. We encouraged the company to continue to assess the policy positions of the trade associations of which it is a member and to be prepared to take further action if these remain misaligned.

Net carbon footprint

Includes the emissions of carbon dioxide and other greenhouse gases from the company's operations and the energy products that it sells.

SONY

SONY is a Japanese company that develops, manufactures and sells a variety of electronic equipment, instruments and devices including digital cameras, TVs and semiconductors.

Meeting with Hiroki Totoki, CFO, and other colleagues

Issues: Governance – board structure and remuneration

We discussed at length the limited disclosure the company currently provides surrounding executive remuneration, in particular around the bonus and stock option plan, because we do not think it is sufficient in allowing investors to fully understand how remuneration is linked to the delivery of shareholder returns. We pushed the company to make this additional disclosure widely available. Board structure was also discussed, including how recent additions to the board have led to a greater diversity of backgrounds.

"Board structure was also discussed, including how recent additions to the board have led to greater diveristy of backgrounds."

TOKIO MARINE is a Japanese insurance company.

Meeting with Takayuki Yuasa, CFO, and other colleagues

Issues: Governance – board structure and remuneration

We discussed the recent move of the CEO to become Chair of the Board and stressed our concerns about the Chair not being independent. The company has a traditional 'kansayaku' board structure, but some changes have already been made with independent Chairs of both the nomination and compensation committees, which we think is important. On remuneration, the determinants of performance-based pay were discussed along with how compensation has recently been raised for the CEO and Chair of the Board. Given the level of compensation compared to the company's global competitors, we think this is justified.

Board structures

In Japan, the traditional board structure is two-tiered, with a board of directors and a board of statutory auditors (kansayaku). In the United States and United Kingdom, most boards are unitary in structure with three committees; audit, nomination and remuneration. From an auditing perspective, a unitary board structure is preferred as the audit committee is a part of the board and its members are involved in the decision-making process.

TOKMANNI

TOKMANNI is the largest general discount retailer in Finland, with almost 200 shops.

Meetings with Seppo Saastamoinen, Chair of the Board; Mika Rautiainen, CEO; and Markku Pirskanen, CFO

Issues: Governance – company strategy, communication and remuneration

We discussed the company's strategy, including benchmarking it against other discount retailers in the US and Europe, in order to identify the full potential of the business and its ability to deliver value to shareholders.

We also encouraged the company to alter the structure of its executive remuneration, in particular recommending that management should hold shares in the company, a practice less common in Finland, to align better the interests of management and shareholders. On the company's communication with shareholders, we identified room for improvement. We encouraged Tokmanni to set long-term profitability targets, clearly articulate what will be required to achieve them and regularly disclose its progress. The company has since amended its management incentives and has lent money to executives for a five-year period to enable them to purchase shares. It also held a capital markets day with shareholders to improve its disclosure and transparency. The actions taken reaped benefits through 2019, with the share price rising significantly, delivering value to shareholders and leading the company to reward its employees with a performance bonus.

VALARIS, formerly Ensco Rowan, is an offshore drilling services company headquartered in London.

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

Issues: Governance – board structure, remuneration

Valaris, formed from the merger of Ensco and Rowan in 2019, currently has a mixed board of former directors and non-executive directors from each entity. On the topic of succession plans, we acknowledged the progress made by the board in its refreshment plan and spoke about the importance of having directors with diverse experience and skills. The company has appointed two new directors who both have financial expertise, formed a finance committee and announced that two directors are retiring and another will not stand for re-election at its AGM in 2020. In addition, the Chair's contract ends in October 2020 and the board is aiming to appoint a fully independent Chair and wishes to further improve its diversity.

On remuneration, the company is currently reviewing its annual incentive plan and long-term incentive plan (LTIP). On the LTIP, we encouraged the company to improve the alignment with shareholders by including more stock-based, rather than cash-based, remuneration and explained why we would like a free-cash-flow metric to be considered. On the management of sustainability and safety issues, Valaris has a committee with oversight of its sustainability and it is focusing on operational safety, minimising the risk of spills, driving exhaust emissions lower and incorporating sustainability into the capital allocation process.

WHEATON PRECIOUS METALS is a gold and silver streaming company headquartered in Vancouver.

Meeting with Randy Smallwood, CEO

Issues: Environmental and social – tailings dams

We discussed the company's operations in South America, in particular its Salobo mine, following the collapse of one of Vale's tailings dams in Brazil in January 2019. Although the company operates a number of mines with tailings dams, the CEO confirmed that none of its mines have the same type of dam structure as the one that had collapsed. We discussed the possibility of increased regulation of mining activities in South America and stressed how concerned we are about the dam collapses and the devastating impact these have had on local communities and the environment. This meeting preceded the setting up of the Investor Mining & Tailings Safety Initiative and we are pleased that the company responded to the questionnaire in 2019.

"We discussed the possibility of increased regulation of mining activities in South America and stressed how concerned we are about the dam collapses and the devastating impact these have had on local communities and the environment."

WHITBREAD

WHITBREAD owns and operates hotels and restaurants and is based in the UK. Its brands include Premier Inn, Beefeater and Brewers Fayre.

Meeting with Adam Crozier, Chair of the Board, and Chris Vaughan, General Counsel

Issues: Governance – board structure, succession planning and remuneration

We spoke about the non-executive directors who had recently joined the board to understand fully their skills and experience. Given the changes at the company over the past year, we wanted to appreciate how the board and management work together and whether there will be additional skills required on the board in the future. We also asked about the recent board effectiveness review. As the company structure is changing, we discussed how the remuneration policy should be aligned with the new strategy while continuing to motivate management.

Conference call with Deanna Oppenheimer, Chair of Remuneration Committee, and Chris Vaughan, General Counsel

Issues: Governance – remuneration

We participated in the consultation on the proposed remuneration policy. We questioned the company's rationale for increasing the quantum of overall pay to be more in-line with its FTSE 100 peers given it is now a smaller and more streamlined company following the completion of the sale of the coffee chain Costa. While we appreciate the need to have competitive remuneration to retain key executives, we think that it is important this is based on the appropriate peer group.

We welcomed the reduction in the executive pension contribution rate to align it with the rate received by senior management, but we questioned why it was not being reduced to the rate received by the wider workforce. We also asked for the rationale behind this reduction being spread over three years.

Additionally, we questioned the rationale for moving the long-term incentive plan to a restricted stock plan at this point in the cycle, given the executives have benefitted from benign market conditions over the past 10 years. We also stressed that we do not consider the current performance underpin to be onerous enough and discussed ways to align this plan better with the interests of shareholders. The company did not significantly change its proposed remuneration policy following this discussion. We voted against the remuneration policy and the restricted stock plan at the EGM in December and communicated this decision to the company.

YAMATO HOLDINGS is based in Japan and is primarily a parcel delivery company with nationwide coverage offering time-specified fulfilment. The company also offers moving and transportation services as well as financial and autoworks services.

Meeting with Tsukasa Kobayashi, Head of Investor Relations

Issues: Environmental and social – workplace culture and climate change

Given the recent overtime salary scandal at Yamato and the government's focus on reforming the workplace culture in Japan, the company has committed to significantly reduce the amount of overtime worked over the next three years.

We also discussed measures the company has taken to reduce its carbon emissions. The main source of emissions is its transportation vehicles, so the company is focused on the use of electric and hybrid vehicles and bicycles in the short term, and a more significant business model shift in the longer term. The company is also trialling more innovative solutions, such as transporting parcels using local buses when they are not in operation.

YARA is a Norwegian chemicals company. The largest part of its business is the production of nitrogen fertiliser, which is used in agricultural production.

Meetings with Svein Tore Holsether, CEO; Lars Røsæg, CFO; and Terje Knutsen, EVP Sales & Marketing

Issues: Governance – capital allocation, board structure and communication

Over a number of meetings we obtained a detailed understanding of the business to form a view on what its strategic priorities should be. We discussed Yara's capital allocation goals and the company subsequently raised the required rate of return for its projects. It is also evaluating the disposal of non-core businesses and returning excess cash to shareholders. These actions will support long-term shareholder value creation.

On the topic of board structure, we encouraged the company to consider independent shareholder representation and, in 2019, we voted to appoint a major shareholder to the board.

Having spent time with management to understand the potential of the business, we are continuing to work with them to improve the clarity of communication to shareholders, in particular around strategy and the business model, as well as progress towards meeting financial targets.

Why diversity matters in investment

Diversity is a key consideration when evaluating the governance of a company. Defined as the presence of a range of different groups, diversity can refer to gender, race, heritage, religion, social class and ways of thinking, as well as to many smaller differentiators. Robust diversity policies encourage the balanced representation of a variety of individuals who bring experience from contrasting backgrounds.

FELICITY HALL
Investment Associate

DIVERSITY IS ALREADY ESTABLISHED as an important component of ESG analysis. It informs ratings produced by the likes of MSCI ESG Research, which many investors, including Ruffer, use as a source of information. Gender equality, the most topical angle, is also the fifth of 17 United Nations Sustainable Development Goals (SDGs), adopted by all Member States in 2015 to promote sustainability and prosperity.

Diversity is growing in importance as investors seek to align their activities with the SDGs. It also feeds into social considerations when investing, under the guise of human capital and social opportunities.

SO WHY EXACTLY SHOULD DIVERSITY MATTER TO INVESTORS?

Studies demonstrate a positive correlation between the diversity of a company's employees and its returns. A McKinsey study in 2018 suggested that firms in the top quartile for gender diversity on their executive teams were 21% more likely to have above-average profitability and 27% more likely to have superior value creation than companies in the fourth quartile. The same report suggested that companies in the top quartile for ethnic and cultural diversity on executive teams were 33% more likely to have industry-leading profitability.[1] In a similar study, Boston Consulting Group analysed management boards, focusing on factors such as gender, age, birthplace, career path, industry background and education. It found that profit margins were 9% higher for companies with diverse management teams. The same study also suggested that diverse leadership teams boost innovation, with nearly half the revenue of companies with more diverse leadership coming from products and services launched in the preceding three years.[2]

There are many similar studies which show a positive correlation between profitability and diversity. Yet some caution that correlation should not be confused with causation in such studies. Could enhanced returns be the product of superior corporate governance and a diverse workforce the outcome of the latter rather than a profit generator in and of itself? With the limited data currently available, scepticism remains.

Nevertheless, there are intuitive reasons why diversity may boost financial returns.[3] Diversity encourages collaboration between individuals who think differently and approach problems in different ways. This can reduce the risk of groupthink, thereby

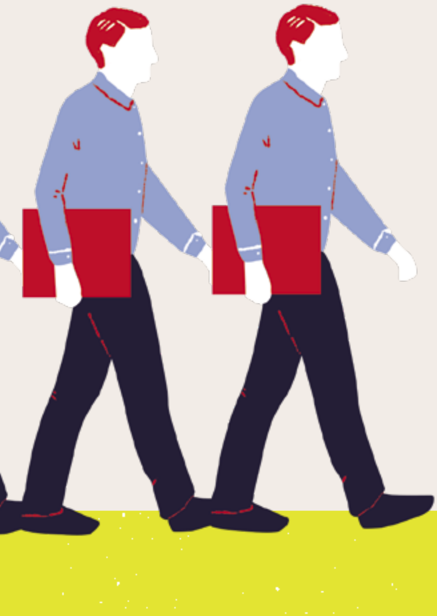
1 McKinsey & Company (2018), Delivering through Diversity
2 Boston Consulting Group (2018), How Diverse Leadership Teams Boost Innovation
3 Morgan Stanley (2016), A Framework for Gender Diversity in the Workplace

> "Diversity encourages collaboration between individuals who think differently and approach problems in different ways."

enhancing decision-making. Consider a business expanding to target a new region or customer base. A company whose employees come from a narrow pool of individuals may struggle to adapt. On the other hand, a diverse workforce means a company is more likely to have the knowledge and skills necessary to understand a new market.

In addition to strengthening financial performance, diversity has also been linked to higher employee retention and job satisfaction. The more diverse the workforce, the less employees feel obliged to fit a particular mould. Indeed, young people entering the workforce say a diverse environment is an important factor when choosing a place to work.[4] Thus, in a diverse working environment, key talent may be retained for longer, building stability and reducing operational risks. Furthermore, diversity has been linked to lower reputational risk. This is because companies that actively include diversity in their governance policies reduce their exposure to lawsuits based on discrimination.[5]

4 Bright Network (2018), What do graduates want?
5 Morgan Stanley (2016), The Gender Advantage: Integrating Gender Diversity into Investment Decisions



Definition: Groupthink

Groupthink occurs when individuals do not want, or feel unable, to express opinions which contradict the consensus of a group. Within a business this often results in poor decision-making, as employees feel unable to suggest new ideas or question existing ones. In such a situation critical thinking and creativity are repressed in favour of conflict avoidance. Although this may enable decision-making to be a more efficient process, it does not necessarily follow that the right decisions are made.

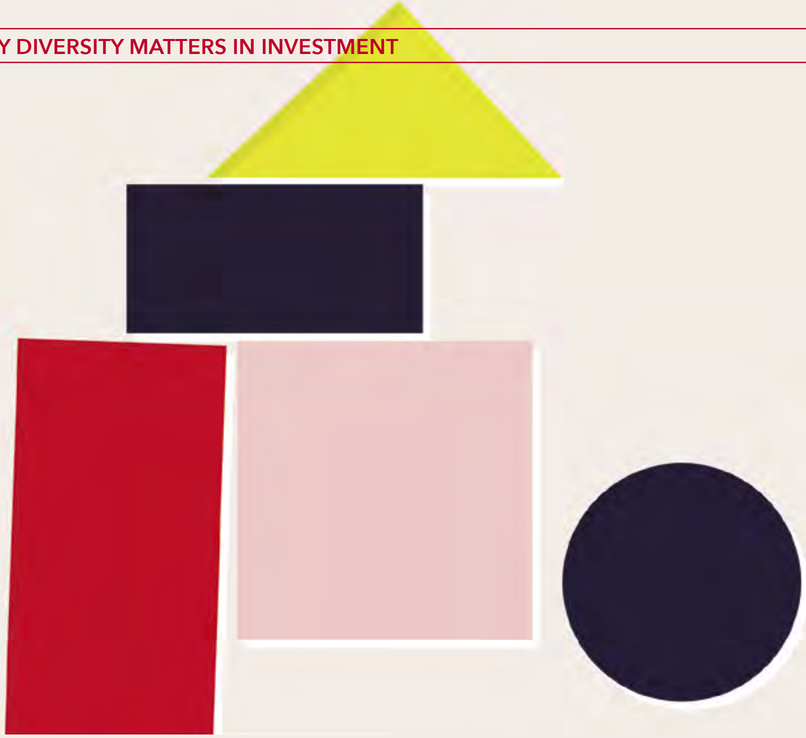
CASE STUDY: JAPAN

In Japan, many companies have historically ignored the importance of diversity. Recent progress, however, has been helped by the introduction of the Act on Promotion of Women's Participation and Advancement in the Workplace in 2016. This required companies with more than 300 employees to collect four gender diversity metrics and disclose at least one of them.[6] The metrics include statistics such as the percentage of women in new hires and the difference between the average tenure of men and women. Most notably in 2019, the average percentage of female board members among MSCI Japan IMI Top 500 companies increased to 7.5% from 4.9% the previous year.[7] Although this overall figure remains low, given the shortage of executive and director level female talent available in Japan (in the past, many women stopped work once they married or had children), this could mark the start of a positive move forward. While progress remains slow, with many measures flat and Japan continuing to languish behind other developed countries in terms of diversity, the need to disclose these metrics – and the interest from many investors in them – has made this a much more significant focus of boards.

CASE STUDY: DIVERSE DISNEY

Disney's business is, in its words, dependent on employing people who reflect the lives and experiences of its audiences. To encourage and attract a diverse workforce, Disney has established 45 business employee resource groups representing eight dimensions of diversity. Two-thirds of Disney's corporate board are either women or people of colour, which reflects the composition of its employees.

6 MSCI ESG Research (2018), Gender Diversity in Japan: Progress Report
7 MSCI ESG Research (2019), Gender Diversity in Japan Report



HOW WE THINK ABOUT DIVERSITY IN THE INVESTMENT PROCESS AT RUFFER

At Ruffer, diversity is considered holistically alongside other ESG considerations as part of our analysis. When considering the diversity statistics of a company we endeavour to take into account the availability of diverse talent in the industry and the country in which the business is based. Where we believe diversity policies fall short, Ruffer looks to engage actively with the company to improve performance. For example, we have engaged with Dai-ichi Life to improve the diversity of non-executive directors. Likewise, Ruffer has engaged with Kao, which still maintains a traditional Japanese board structure, but has been considering how to increase diversity. Beyond gender, Ruffer considers other aspects that are likely to negatively affect diversity of thought. For example, when considering board composition we take into account diversity of skills.

Our discussions on diversity are continuing, with further engagement on these issues expected in future.

CONCLUSION

Better financial returns and business decisions; more innovation; a happier and more adaptable workforce: there is now a compelling body of evidence for why businesses should embrace diversity within their governance policies. In addition, companies must endeavour to guard against groupthink and ensure, as Disney does, that their employees represent the demographics of their customers.

Strong diversity policies are a sign of good corporate health. As investors, this is something we should be looking for and be actively engaging with companies to improve where necessary.

ESG integration at Ruffer

Our specialist responsible investment team work closely with our research analysts to look at the companies in which we invest. In this report, we have included an example of how ESG considerations are integrated into our analysis of fossil fuel demand and two examples of companies, Equinor and Hennes & Mauritz (H&M), that we found particularly interesting from an ESG perspective.

When will demand for fossil fuels peak?

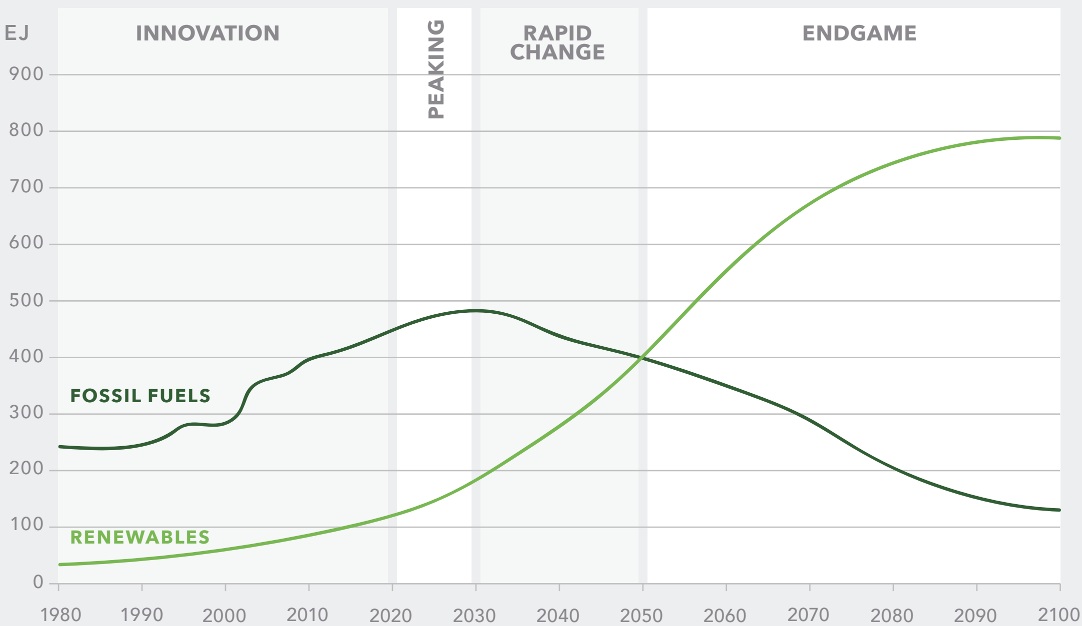
At Ruffer, we believe that different assets may be compelling investments at particular points in the cycle. We have had periods with minimal or low exposure to fossil fuel companies, but at the time of writing we hold a number of oil and gas companies. Our investment case is based on our assessment that these companies offer high dividends that can be sustained even at lower oil prices and are attractively valued. Additionally, if commodity prices rise in an environment of strong global economic growth, these companies could perform particularly well.

We take environmental issues very seriously and work hard to incorporate environmental, social and governance concerns systematically into our investment process. We think that hydrocarbons will continue to provide a significant proportion of global energy for the foreseeable future and therefore will need to be part of the transition to a low-carbon economy. The International Energy Agency's analysis and scenarios add weight to this argument.[1] Renewables are growing at a considerably faster rate than fossil fuels, but even in the most ambitious scenarios compatible with the goals of the Paris Agreement, oil and particularly gas will still provide a significant proportion of our energy in 2050. There are some areas in which it is difficult to substitute oil or gas for renewables, such as aircraft fuels and heat generation for manufacturing processes. In addition, oil is used as a feedstock for many industries.

One of the questions we have been considering in depth over the past few years is when demand for fossil fuels will peak. Ruffer's view is that this is likely to be in the early 2030s. There is no consensus on this, but estimates vary from the 2020s, with organisations such as Carbon Tracker predicting this could be as early as 2023, to the energy industry's estimate of 2040.[2] Our view is more closely aligned with Carbon Tracker than the energy industry. However, we think pinpointing a precise year

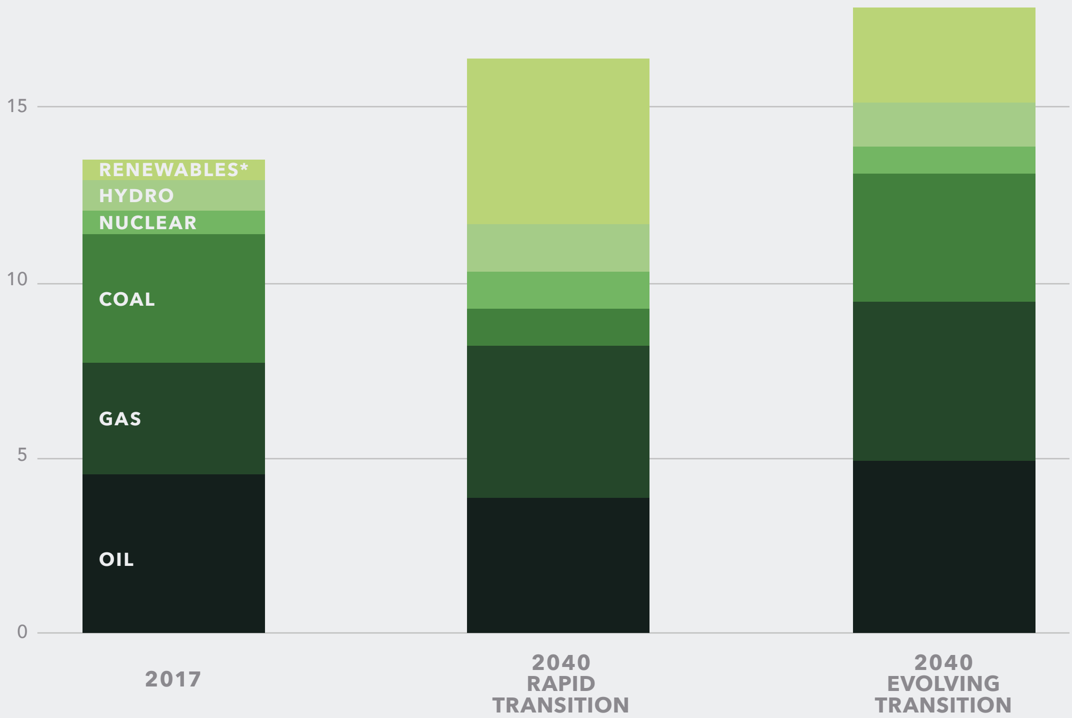
1 International Energy Agency (2019), World Energy Outlook
2 Carbon Tracker (2018), 2020 vision: why you should see peak fossil fuels coming

TOTAL PRIMARY ENERGY



Source: Carbon Tracker (2018), 2020 vision: why you should see peak fossil fuels coming, underlying data from Royal Dutch Shell's 'Sky Scenario'

PRIMARY ENERGY CONSUMPTION BY FUEL
BILLION TONNES OF OIL EQUIVALENT



* Renewables includes wind, solar, geothermal, biomass, and biofuels.
Source: BP Energy Outlook 2019 edition

gives a misleading sense of accuracy. The two charts opposite provide some context to our thinking. The top chart is taken from the Carbon Tracker 2020 Vision Report published in September 2018. The chart below is taken from the 2019 BP Energy Outlook and shows the company's 2040 Evolving Transition (ET) estimate, with demand for fossil fuels peaking in 2040. BP's view is broadly consistent with those of the rest of the energy industry.

Why do we believe that oil demand will peak closer to 2030 than 2040?

1. With global energy-consumption growth estimated at 1.3% per annum, the associated carbon emissions will far outpace the reductions required to meet the goals of the Paris Agreement.[3] We expect this to put more pressure on the speed of the energy transition to low-carbon energy sources.
2. The cost of generating energy from solar and wind resources continues to fall dramatically, while the technology has advanced to a stage where even without subsidies, renewables are at least as attractive as fossil fuels.
3. We expect the speed of transition towards electric vehicles (EVs) to be faster than the energy industry expects. Battery technology continues to improve at a rapid rate and mass production is resulting in a fast decline in costs. EVs are expected to be cost competitive with internal combustion engine vehicles within a short period of time.
4. China continues to invest heavily in renewable infrastructure in the short term, driven by non-economic criteria such as concerns over air pollution.

However, the transition to low-carbon energy will not be simple and may generate some unintended consequences. Serious bottlenecks are likely to slow down the pace of renewable energy development. For example, due to the intermittent nature of wind and solar power, the storage of energy generated from renewables during peak days is becoming a barrier to further investments in renewables in some countries and regions. The need for battery storage to compensate for this is making energy-storage technologies of increasing interest to us.

Another angle to explore is the carbon intensity of different energy projects because not all are created equal. Some resources and operators produce materially lower amounts of carbon dioxide per barrel of oil equivalent than others. Equinor, the Norwegian energy company, is a good example of this and more information can be found in the next example. The need to reduce the carbon content of the existing energy mix might lead investors to favour less carbon-intensive oil and gas businesses at the expense of more carbon-intensive operations.

JAMES HEAL
Research Director

3 Carbon Tracker (2018), 2020 vision: why you should see peak fossil fuels coming

equinor

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

Equinor is seen as an ESG leader in comparison to its integrated oil peers. The company supports the Paris Agreement and a net-zero target for society. In January 2020, Equinor pledged to eliminate its net greenhouse gas emissions from the offshore fields and onshore plants it operates in Norway by 2050.[4] This will be achieved by increasing the efficiency of the group's oil and gas fields as well as increasing both the research and development funding and the capital expenditure allocated to its new energy-solutions business.

One example of where Equinor is well positioned is the newly opened Johan Sverdrup field. Johan Sverdrup is one of the largest discoveries on the Norwegian Continental Shelf, with an estimated 2.1 billion to 3.1 billion barrels of oil resources. In this field the cost to produce each barrel of oil is very low, with a breakeven price of $20 per barrel. Johan Sverdrup will be powered by hydroelectricity from the mainland, making it one of the least carbon-intensive oil fields in the world. On average, oil producers emit 18kg of carbon dioxide for every barrel of oil produced. On the Norwegian Continental Shelf, the average is much lower but still around 9kg of carbon dioxide per barrel. At the Johan Sverdrup field, emissions will be a record low of 0.67kg of carbon dioxide per barrel produced – or just 4% of the global average for oil majors.

Equinor's renewable energy business powers more than one million European homes from offshore wind farms in the UK and Germany. The group is currently building the world's largest offshore wind farm in the Dogger Bank region of the North Sea. Once complete, it will have an installed capacity of 3.6 gigawatts and produce enough energy to power the equivalent of 4.5 million homes in the UK.

Equinor is an example of an oil and gas company that is preparing for the energy transition with a strong focus on ESG and investments in renewable energy. At current oil and gas prices, it is also generating a lot of cash. We therefore believe that Equinor is well positioned for the future.

GEORGE WILLIAMS
Research Analyst

4 All data from Equinor, www.equinor.com

HENNES & MAURITZ GROUP (H&M) is a global fashion, accessories and homeware retailer with significant scale, operating stores in 73 countries and directly employing 177,000 people. It operates through eight defined brands, including & Other Stories and COS, but the H&M brand still dominates the revenue and profitability. The group is listed in Stockholm and is controlled and run by the Stefan Persson family, who own more than 46.5% of the shares.[5]

There are a wide variety of issues to be considered when looking at H&M.[6]

From a governance point of view, the group has a strong culture with a long-term family ethos, but from a shareholder perspective it is difficult to engage directly with senior management or members of the board. While we can fully engage with the investor relations team, we are concerned that they are under-resourced. Governance therefore represents both a risk and an opportunity with regard to H&M from our point of view. Being unable to engage with senior management or members of the board makes it more difficult for us to develop confidence in their strategy and conviction on the overall investment thesis. On the other hand, an improvement in the dialogue with shareholders and other stakeholders is within the resources of this global group and we continue to interact with the investor relations team to further this potential.

From a social perspective, the most important issues are the working conditions for both direct employees and those working in the supply chain. Other factors to consider are health and safety, inclusion and diversity. H&M works with independent suppliers and has moved towards listing its suppliers and factory information on its website, which is updated on a monthly basis. The group came fifth in the Fashion Transparency Index 2019, which reflects its strong supply chain and environmental policies and practices. While the disclosure of supplier data is encouraging, we are still seeking to understand the level of company engagement with its suppliers to assess the social and environmental practices within its supply chain.

5 H&M (2018), Annual Report
6 All data unless otherwise stated comes from H&M (2018), Sustainability Report

From an environmental standpoint, there are a number of issues to consider, including those associated with 'fast fashion' – such as the sourcing of raw materials, water usage, greenhouse gas emissions, recycling and product reuse.

We believe there is a strong culture of sustainability within the H&M group, which has developed over the years to become a key customer proposition (along with price, design and quality). H&M is committed to 'leading the change towards circular and renewable fashion while being a fair and equal company'. It was added to our portfolios in 2019 and by engaging with the company in future we aim to understand better how H&M's commitment to circular and renewable fashion is managed and implemented throughout the group.

Issues we will be looking to engage with the company on may include the following:

In the supply of raw materials, H&M looks close to achieving 100% sustainably sourced cotton by 2020. Understanding how this is validated in detail and what materials will be prioritised in future will help us assess whether the group will be able to deliver on its 2030 goal of using 100% recycled or other sustainably sourced materials.

H&M has been working with WWF since 2011 to become a leading water steward within the fashion industry. The group has adopted targets that are aligned with 'ensuring availability and sustainable management of water and sanitation for all' – the sixth United Nations Sustainable Development Goal. A detailed water roadmap to 2022 has been set out and we will engage with the company to understand the extent to which this is embedded in the full supply chain and how the group's performance compares with its peers.

The group also has an ambitious carbon reduction programme and aims to be climate positive by 2040. It is committed to reducing its overall greenhouse gas emissions by 40% across its operations (scope 1 and 2 emissions) by 2030 from 2017 levels. H&M is also committed to reducing its indirect emissions (scope 3) and to sourcing more renewable electricity. These targets align the company with the reductions needed to achieve the goals of the Paris Agreement and have therefore been approved by the science-based targets initiative. H&M is a member of the WWF Climate

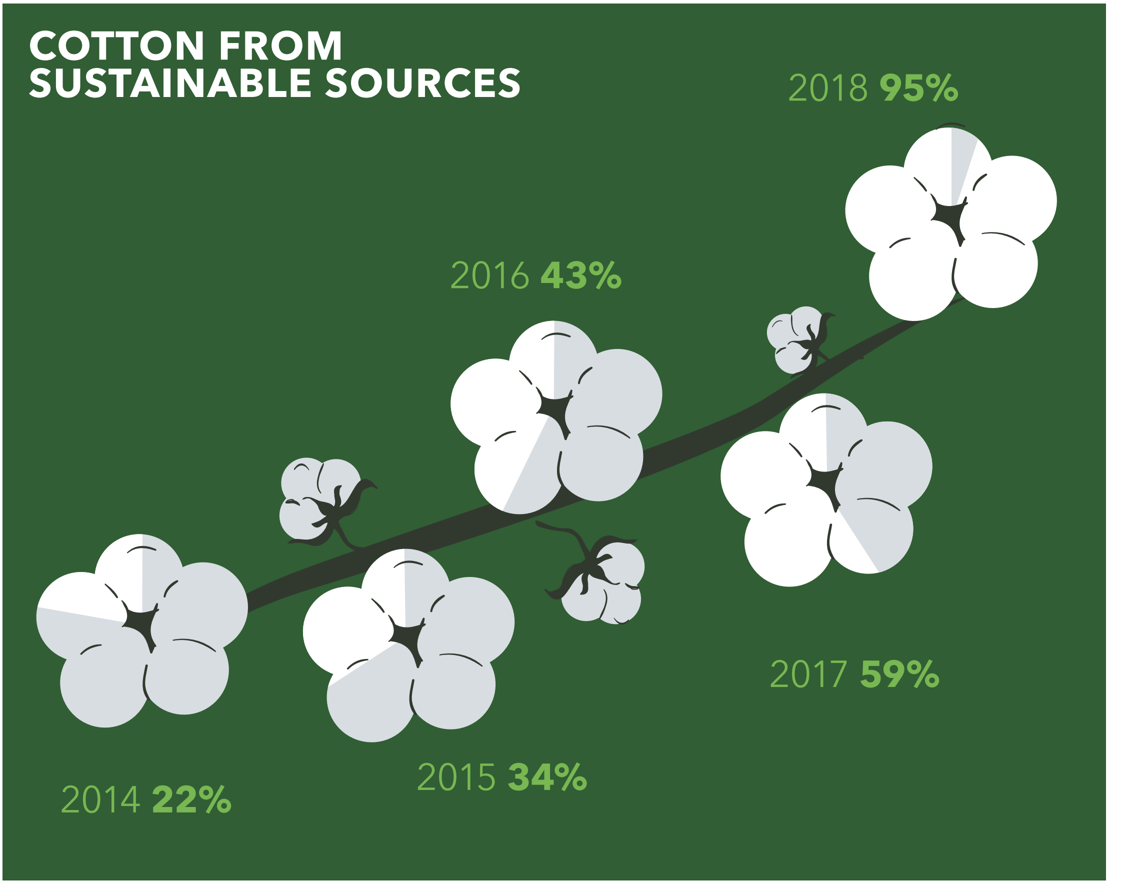
7 House of Commons Environmental Audit Committee (2019), Fixing fashion: clothing consumption and sustainability

Fast Fashion[7]

Fashion where the emphasis is on making clothes cheaply and quickly available to customers, rather than clothes of high quality and durability. This trend, which started in the 1980s, accelerated in the mid-2000s with numerous brands trying to replicate new trends quickly. The emphasis on reducing the time from design and manufacture to the shops has inevitably affected garment quality. This is a particularly important issue in the UK because we buy more clothing per person than any other country in Europe.

Greenhouse gas emissions

The emission of gases that are capable of absorbing infrared radiation and therefore trap heat in the atmosphere and cause the warming of global temperatures. These emissions can be classified into: scope 1 – direct emissions from the burning of fuels; scope 2 – indirect emissions from heat and electricity used; and scope 3 – all other indirect emissions including the company's upstream and downstream activities. Scope 1 and 2 together are the emissions from a company's operations.



Savers programme and the United Nations Framework Convention on Climate Change (UNFCCC) Fashion for Climate Action, where it is on the steering committee.

The group has a wide variety of environmental initiatives with customers, including textile recycling, supplier labelling on in-store labels and alignment with United Nations Sustainable Development Goals. We need to understand better what really matters to the consumer and how their interests in, and concerns about, sustainability interact with other aspects such as price, design and quality. The increasing focus by consumers on the environmental impact of products, including clothing, presents an exciting opportunity for H&M given its deliberate focus on sustainability. We see this trend continuing in the years ahead. Overall, we think that H&M is well placed within a challenging industry.

DES BRENNAN
Research Director

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 to keep the increase in global temperature to well below 2°C compared to pre-industrial levels.

Regulatory changes in 2019

A CHANGING REGULATORY LANDSCAPE

Climate change is shaping the regulatory landscape in three important ways.

Firstly, policy-makers are reviewing regulatory frameworks in light of the significant commitments that governments have made under the Paris Agreement. Secondly, it is now a given that the transition towards carbon neutrality will be costly and too great a burden for the taxpayer alone, meaning governments are trying to bring financial markets on board with incentives to encourage investments in the 'greening' of the economy. Thirdly, governments are putting in place new reporting requirements for listed companies and financial-services firms, ranging from how they are factoring climate risk into their investment decisions to obligations for issuers to demonstrate the steps they are taking to reduce their carbon footprint in their day-to-day operations. This information is essential not only for shareholders to understand the long-term risks and opportunities of businesses, but also when seeking to actively engage in stewardship to mitigate the significant risks of climate change. Central bankers hope this transparency might reduce market instability and turbulence.

Ruffer takes an active role in the policy-making process through stakeholder consultations and engaging directly with those making the decisions. We do this to ensure we remain compliant with the latest legislative requirements and because we recognise that regulatory reforms could significantly impact capital flows in ways that might affect our clients' investments. Early engagement and dialogue with policy-makers not only helps us understand the spirit and intention of the legislation, but also allows us to predict with greater accuracy the extent to which regulation will evolve, whom it might impact and potentially how issuers might be affected.

THE EU SUSTAINABLE FINANCE ACTION PLAN

In May 2018, the European Commission adopted the EU's sustainable finance package. This is a set of initiatives aimed at integrating environmental, social and governance (ESG) considerations into the investment and advisory process across the financial-services sector. The Commission's overarching objective is to establish an EU framework that puts ESG at the heart of the financial system to help transform Europe's economy into something greener, more resilient and circular.

The measures include a unified classification system (known as a 'taxonomy') to describe economic activities in terms of their environmental sustainability. This will be particularly useful for researching companies and assessing the climate impact of everything they do. The European Commission has also indicated it is considering an Ecolabel scheme for financial products. This sustainable-finance taxonomy will come into force on 31 December 2021, initially for climate-change mitigation and adaptation issues, and subsequently for social and governance matters.

The proposal for an EU Ecolabel is still in the earliest stage of consideration. Separately, the EU is proposing to update existing legislation to encourage integration of ESG factors into investment decisions and the advisory process. This includes considering both the climate risks of an investment and its impact on the environment.

Furthermore, to encourage greater stewardship and long-term engagement of shareholders, the revised Shareholders Rights Directive establishes requirements on the exercise of shareholder rights attached to voting shares. The revisions aim to strengthen the voice of shareholders and ensure that decisions are made in the long-term interests of companies, including managing the transition towards carbon neutrality, to the maximum extent possible.

THE UK'S CHANGING POLICY LANDSCAPE

Will the UK choose to adopt the EU's sustainable finance package after Brexit? It is natural to wonder whether this European initiative will reach these shores. However, UK policy-makers are clearly thinking along the same lines. On 5 June 2019, the House of Commons Treasury Committee launched an inquiry into the impact of decarbonisation on the UK economy. The scope of the inquiry included the roles of green finance, HM Treasury, regulators and financial-services firms in supporting the government's climate-change commitments. Ruffer responded to this consultation in July 2019 and anticipates that the new Treasury Committee may launch a similar inquiry at a future date.

The UK regulator (the FCA) has not been slow to join the debate. Indeed, the FCA published a discussion paper on climate change and green finance on 15 October 2018. This took inspiration from the EU-level proposals, but also explored different ideas and aspects of the industry and was followed up with a further policy statement and consultation in October 2019.

In addition, the UK government has environmental ambition. Its Green Finance Strategy, subtitled 'Transforming Finance for a Green Future', launched in July 2019, aims to make the financial sector a beacon of excellence – one capable of capturing the domestic and international commercial opportunities arising from the 'greening of finance'. For this to happen, current and future financial risks and opportunities from climate and environmental factors will have to be integrated into mainstream financial decision-making. This 'greening of finance' will in turn lay the groundwork for a market in green financial products. Both are needed to support the delivery of the UK's carbon targets and clean growth agenda.

The greening of finance and investment is just beginning. Over the coming years, we expect more regulatory change in support of the government's aims. These changes may have a significant impact on investment flows and we will be monitoring how the landscape develops.

Beyond the UK and Europe, we remain aware of policy developments that might impact our clients' interests. When the SEC consulted on proposals to limit shareholders' rights to table resolutions, we were keen to lend our support to efforts of the Principles for Responsible Investment (PRI) by being named a co-signatory to a letter expressing our concern that the rights of shareholders should not be curtailed.

VICTORIA POWELL
Regulatory Policy Director

Rainforest and biodiversity protection in Peru. Image courtesy of South Pole

Craigengillan woodland restoration in United Kingdom. Image courtesy of South Pole

Ruffer's corporate social responsibility efforts

Over the past year, Ruffer has taken steps to ensure we continually assess and manage the impact that our own business has on the environment and society, just as we do for the companies in which we invest our clients' assets.

Ruffer has commissioned South Pole to measure the greenhouse gas footprint of our business, with the aim of offsetting our emissions through the purchase of carbon credits. Our employees chose three carbon-offset schemes from which to purchase credits, including a forestry project in Scotland and a rainforest and biodiversity protection programme in Peru. We have purchased carbon credits to offset our greenhouse gas emissions for 2017 and 2018 and secured Climate Neutral labels for those years. We are in the process of implementing our carbon-reduction policy and calculating our emissions for 2019.

In April 2019, a corporate social responsibility group was formed, which organised Ruffer's first 'Eco Day' in November 2019. Initiatives at the event included planting our own produce, improving our recycling, clothing collections for various charities and many other activities designed to reduce our environmental impact. The day also included a presentation from a recycling and waste-management expert. The group is planning to hold more regular Eco Days in the future, as well as arranging a series of talks for employees on social issues, such as mental health and homelessness.

These newer initiatives complement others that Ruffer has supported for many years, including encouraging our employees to volunteer as tutors and mentors for students, to help them achieve places at the best universities.

WIN
ECONOMY

WIN
FOOD SECURITY

WIN
ENVIRONMENT

Food waste

A 'TRIPLE WIN' OPPORTUNITY

If food waste were a country, it would be the third-largest emitter of greenhouse gases (8 per cent of annual global greenhouse gases come from food waste)[1]

HENRY HAMILTON
Associate, Responsible Investment

ONE-THIRD OF ALL FOOD produced globally is wasted, representing a total value of about $940 billion per annum.[2] Food waste therefore poses an enormous challenge for our planet and society – and this is likely to intensify, given that the world's population is projected to grow significantly.

Tackling the problem requires different approaches in developed and developing regions: in developing regions, food waste is more prevalent near agricultural production and in post-harvest handling and storage; in developed countries, more food is wasted near consumption (see figure 1).

1 Food and Agriculture Organization of the United Nations, www.fao.org
2 Champions 123 (2017), The Business Case for Reducing Food Loss and Waste

Given the breadth of these issues, food waste has been incorporated into the twelfth United Nations Sustainable Development Goal (SDG): Goal 12.3 aims to 'halve per capita global food waste by 2030 at the retail and consumer levels and reduce food waste along production and supply chains, including post-harvest losses.'

Reducing food waste has been described as a 'triple win': for the economy, for food security and for the environment. Champions 12.3, which is a global food-waste reduction initiative, states that reducing food waste 'can help feed more people, it can save more money for farmers, companies and households, while creating new business opportunities… and reductions can alleviate pressure on climate, water and land resources.'[3] For investors, it is therefore important to understand the benefits to companies that can accrue from reducing food wastage so they can engage and encourage organisations to turn this challenge into an opportunity.

3 WRI, www.wri.org
4 Champions 123 (2017), The Business Case for Reducing Food Loss and Waste

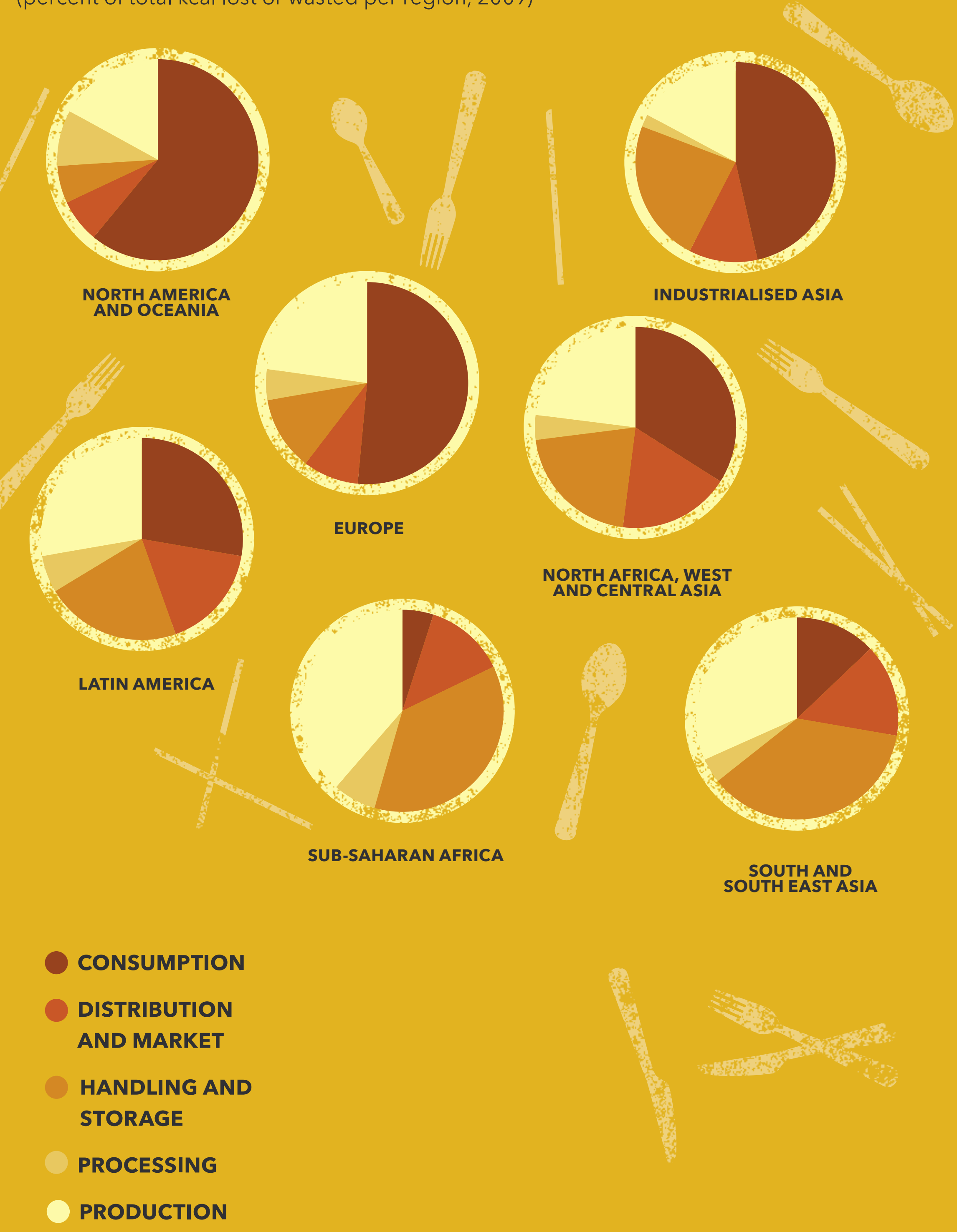
Food waste

The term 'food waste' usually applies towards the end of the food supply chain, arising mainly from retailers' and consumers' behaviour. The term 'food loss' refers to decreases in food quantity or quality during production, as well as immediately post-harvest and during processing. For the purposes of this article, food waste refers to both food loss and food waste.

"One-third of all food that is produced is wasted, which has a value of around $940 billion per annum."[4]

FIGURE 1

Food waste near production is more prevalent in developing regions
while food waste near consumption is more prevalent in developed regions
(percent of total kcal lost or wasted per region, 2009)



Source: Food and Agriculture Organization of the United Nations, www.fao.org

"Every year, an area larger than China is used to grow food that is never eaten."[5]

THE FINANCIAL CASE FOR REDUCING FOOD WASTE

The financial opportunity from reducing food waste has been highlighted in a study conducted by the World Resources Institute (WRI) and the Waste and Resources Action Programme (WRAP), which found an overwhelming financial incentive to tackle food waste. In the 700 companies analysed, for every $1 invested in food-waste reduction, the median company realised $14 – a return on investment of 1,300%.[6] Companies that operated 'closer to the fork' generally showed a larger increase in returns than those operating 'closer to the farm' for each $1 invested in food waste reduction. This is often because food retailers and food manufacturers are better able to match forecasts of supply and demand, as well as make changes to food packaging and labelling to cut surplus food and increase its longevity.

It's worth pointing out that the study focused on firms 'closer to the fork' in developed countries. This was because of the lack of historical food-waste data available for companies involved in the agricultural production, storage and processing stages of the supply chain, and the lack of data from developing countries. In addition, there is at present an overreliance on the WRI/WRAP study. To assess fully the financial case for reducing food waste, more data and research is needed.

5 Champions 123 (2017), The Business Case for Reducing Food Loss and Waste
6 WRI, www.wri.org

NON-FINANCIAL BENEFITS

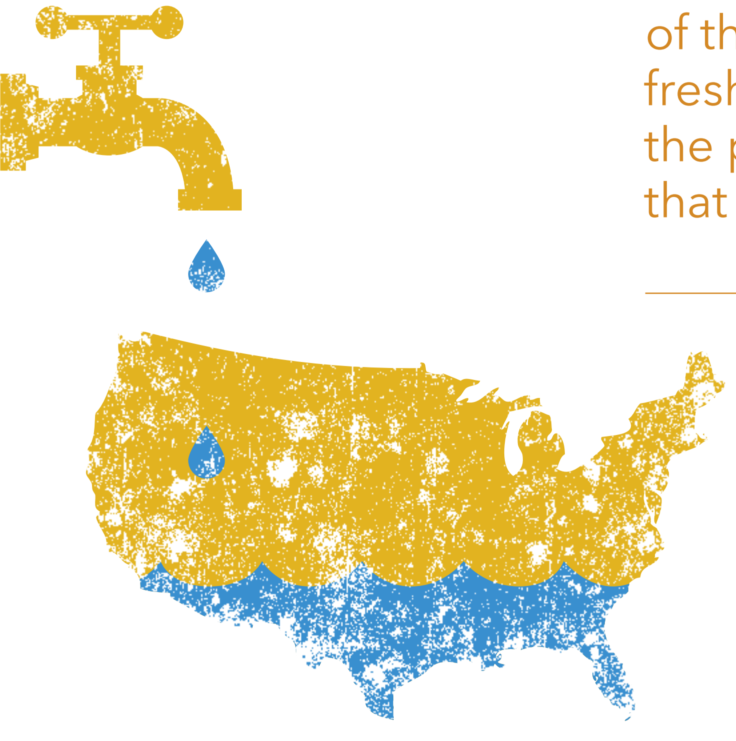
There are also several non-financial benefits to reducing food waste. Doing so means that more people can be fed from a given level of agricultural resource, which improves food security. Given that food waste can be greatest in developing countries at farm level, improving the efficiency of harvests can also have a significant positive effect on the livelihoods of farmers and local communities.

Reducing food waste also curtails unnecessary greenhouse gas emissions, water consumption, fertiliser and pesticide use and means that land can be used for other purposes. In addition, given that food waste accounts for around 8% of all global greenhouse gas emissions, large-scale reductions can help combat climate change.[7]

At the company level, organisations have the opportunity to bolster their brand, aid customer retention and attract more environmentally-minded customers because food-waste reduction efforts tend to be viewed favourably by the media and consumers.

7 FAO, Food wastage footprint and climate change report
8 Hall, K. et al (2009), The progressive increase of food waste in America and its environmental impact

"Each year, 25 per cent of the United States' freshwater use results in the production of food that is wasted."[8]



THE ROLE OF INVESTORS

With the financial and non-financial benefits of reducing food waste so evident, it is important that investors encourage companies to respond to this opportunity and publish their performance data and future targets. UK companies can sign up to the Food Waste Reduction Roadmap, which guides companies on setting reduction targets, measuring food waste and acting to reduce it under the banner of 'Target, Measure and Act'. The initiative covers the entire food supply chain, with the aim of halving food waste by 2030. Tesco and Ocado have both signed up.

SUPERMARKETS HAVE A CENTRAL ROLE in efforts to reduce food waste along the whole supply chain. Tesco is the industry's UK pioneer for measuring and publishing its food waste, having started in 2013.[9] For context, of the total food waste from Tesco's upstream manufacturing, midstream retail operations and downstream households, domestic food waste contributed 77% of the total. Tesco's retail operations, on the other hand, contributed just under 3%. Therefore, it is of vital importance that Tesco and other food retailers work with the whole supply chain in efforts to cut wastage.

Tesco has committed to SDG 12.3 by aiming to halve food waste in its operations by 2030. It has also set a target that no food safe for human consumption will be wasted in UK operations and has donated more than 60 million meals to community food banks and charities. It has not sent any food to landfill since 2009. Tesco has also encouraged its partners to publish food-waste data and to sign up to 'Target, Measure and Act'. Tesco has done other work with its suppliers, such as launching the 'Perfectly Imperfect' range of 'wonky' fruit and vegetables in 2016. This helps to reduce food waste and allows Tesco to sell these products at a lower price, benefitting consumers.

9 All data for Tesco from Tesco (2019), Tesco ESG Day Report

THE ONLINE GROCERY RETAILER'S centralised and technology-driven customer fulfilment centre (CFC) model gives it an advantage in terms of reducing food waste over store-reliant retailers, because it can gauge supply and demand more accurately.[10] In addition, products can be out for delivery to customers within five hours. As a result, Ocado currently wastes only one in 6,000 – or less than 0.02% – of its food items and is working to reduce this further. For example, Ocado is using machine learning and artificial intelligence in its forecasting to try to predict demand accurately for each product. It has also introduced a product-life guarantee to inform online customers how many days each item can be kept. Ocado, through its work with WRAP, is ensuring its product labelling follows best practice guidelines. This includes placing a snowflake logo on nearly all its chilled ranges to show they are suitable for freezing, even milk.

10 All data for Ocado from Forbes (2019), How Ocado is using machine learning to reduce food waste and feed the hungry.

CONCLUSION

Tackling food waste has huge potential benefits, both financial and non-financial. Tesco and Ocado have shown how food retailers can reduce their food waste and it is vital that all retailers work with their supply chains on this issue. The lack of food-waste data 'closer to the farm' and particularly in developing countries presents a major challenge to efforts to reduce food waste – and hence for investors. It is therefore of the utmost importance to engage with companies who operate in the food supply chain to encourage those that have not committed to SDG 12.3 to do so, as well as joining relevant initiatives. Those companies that commit to acting on reducing food waste and who work with producers, suppliers, consumers and other stakeholders can turn this challenge into a triple win opportunity.

Last word

FRANZISKA JAHN-MADELL

Director, Responsible Investment

REVIEWING OUR ACTIVITIES IN 2019 has caused me to reflect on the extent to which the world of responsible investment has changed over the past decade. Ruffer, along with the wider financial, corporate and regulatory community, has shifted greatly in putting ESG integration into practice, and taking concrete action in engagement and voting.

As a company we have always embraced active ownership. We became a signatory to the UK Stewardship Code in 2012, began formally integrating ESG risks and opportunities into the investment process in 2014, became a signatory to the PRI in 2016 and a founding signatory to Climate Action 100+ in 2017.

We are seeing vastly increased interest in ESG-related issues, renewed urgency for a global response to climate change – with extreme weather events in several parts of the world – and countries and companies showing leadership in committing to net-zero emission targets by or before 2050.

We encourage our investee companies to embrace ESG issues, set ambitious targets and communicate good corporate practices to differentiate themselves in their industry sectors. It is now a widely-held belief that sustainability-focused, low-carbon societies need companies to deliver their vision.

In 2020, we will continue to prioritise climate change in our conversations with companies, in particular around setting specific targets to align with the transition to a low-carbon economy. We will also broaden our scope by addressing hard-to-decarbonise sectors, such as transportation and materials. And we will make our engagement on tailings dams company-specific, after we started tackling the mining sector-wide disclosure and transparency gaps in 2019.

Our main goal for the year is to be more ambitious and accountable in integrating ESG risks, opportunities, company engagement successes and failures into our investment process.

Integrating ESG factors into traditional fundamental analysis to improve portfolios and deliver 'all-weather' protection and active shareholder engagement to gain a deeper insight into company management and drive changes, will mean that we are as relevant in the new decade as we were when Ruffer was founded.

Contributors to this year's report

ALEXIA PALACIOS *Analyst, Responsible Investment*

Joined Ruffer in 2014 after graduating from the University of Cambridge with first class honours in Land Economy. Having gained experience in responsible investment during the time she worked on Ruffer's Charity Team, she has specialised in this area since 2018. She has completed the PRI Academy Responsible Investment Essentials and Enhanced Financial Analysis courses and is a CFA charterholder.

DES BRENNAN *Research Director*

A graduate of City University Business School, he has worked as an equity research analyst and portfolio manager since 1988. Having joined Ruffer in 2011 to launch the Ruffer UK Mid and Small Companies Fund, he now works in the Global Equities team and is an ESG Champion for the Research team.

FELICITY HALL *Investment Associate*

Joined Ruffer in 2017 after graduating from Cambridge University with a first class honours degree in Philosophy. She passed both units of the Investment Management Certificate in 2017 and completed the Chartered Investment Manager qualification in 2019.

FRANZISKA JAHN-MADELL
Director, Responsible Investment

Joined Ruffer in 2014 after working for 10 years at EIRIS, a research provider for environmental, social and governance performance, in several positions. Her last role as a Principal Research Analyst at EIRIS mainly focused on corporate governance issues and criteria development. She graduated in 2003 from Frankfurt University with an MA in Theology and an MA in Literature.

GEORGE WILLIAMS *Research Analyst*

George joined Ruffer in 2015 as an equity analyst. He graduated from the University of Bristol with a master's degree in Mechanical Engineering in 2011. He is a qualified Chartered Accountant and previously worked at Ernst & Young in both the Audit and Corporate Finance divisions.

HENRY HAMILTON* *Associate, Responsible Investment*

Joined Ruffer in 2017, having previously worked in research and then relationship management at Wellington Management. Graduated with a first class degree in Geography from Durham University. He has completed the Chartered Wealth Manager qualification, the Investment Management Certificate and the PRI Academy Responsible Investment Essentials.

*Henry left Ruffer in January 2020

JAMES HEAL *Research Director*

Worked at Lehman Brothers from 2005 to 2007, where he was Executive Director of the Long Term Value proprietary fund. His previous roles include Head of Technology Research at Commerzbank Securities and Director of Regional Asian Technology Research at Indosuez WI Carr Securities in Singapore. He joined Ruffer in 2008 and is Head of the Energy Group.

VICTORIA POWELL *Regulatory Policy Director*

Joined Ruffer in 2015 having worked for the British Banking Association (now UK Finance) for two years. Prior to her return to the UK, Victoria spent 9 years in Paris, as a Director at the European Securities and Markets Authority that brings together all the heads of the European Securities Regulators to advise the European Commission on legislation and provide convergence in regulation among European supervisors. Victoria had initially been sent by the Financial Conduct Authority (FCA) on secondment to help establish the organisation, having previously worked on international policy and subsequently prudential policy for seven years at the FCA and its predecessor regulator.

Glossary

AGM
Annual General Meeting

CARBON FOOTPRINTING
The calculation of the total greenhouse gas emissions caused by a product or an organisation

CDP
Formerly the Carbon Disclosure Project. CDP is a non-profit that runs a global disclosure system to provide investors and other stakeholders with data on how companies, cities and states are managing their environmental impacts

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. It is engaging with 161 companies. By the end of 2019, the initiative was supported by more than 370 investors representing $35 trillion in assets under management[1]

CO2 EQ
Carbon dioxide equivalence is a standard unit of measurement used to compare different greenhouse gas emissions based on their global warming potential

CROSS-SHAREHOLDINGS
Cross-shareholdings are reciprocal holdings of equity positions, which are often held to strengthen long-term business relationships between companies

DIVESTMENT
The act of selling the shares of a company in response to concerns over environmental, social, governance or ethical issues

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 (see below)

ENGAGEMENT
The process of continued dialogue with a company and other relevant parties, with the aim of influencing their behaviour in relation to environmental, social or governance practices

ESG
Environmental, social and governance

EU ACTION PLAN FOR FINANCING SUSTAINABLE GROWTH
In response to recommendations from the High-Level Expert Group on Sustainable Finance, the EU Commission launched the EU Action Plan for Financing Sustainable Growth. The plan outlines 10 reforms in three areas: reorienting capital flows towards sustainable investments; making sustainability a mainstream part of risk management; and fostering transparency and long-termism in financial and economic activity

EXCLUSION

An approach that restricts investment in certain sectors (such as the tobacco sector) or in companies based on specific criteria, such as a company that derives more than a specified percentage of its revenue from gambling activities

EGM

Extraordinary General Meeting

FOOD POVERTY

The inability to afford, or not having access to, sufficient nutritious food to make up a healthy balanced diet

FSB

The Financial Stability Board (FSB) is an international body that monitors and makes recommendations about the global financial system to promote international financial stability

GREENHOUSE GAS EMISSIONS

The emission of gases that can absorb infrared radiation and therefore trap heat in the atmosphere and cause global temperatures to rise. These emissions can be classified as: scope 1 – direct emissions from the burning of fuels; scope 2 – indirect emissions from heat and electricity used; and scope 3 – all other indirect emissions

IIGCC

The Institutional Investors Group on Climate Change (IIGCC) is a collaborative platform for European investors to encourage public policies, investment practices and corporate behaviour that address the long-term risks and opportunities associated with climate change

INTEGRATION

The systematic inclusion of environmental, social and governance considerations into research and investment processes and investment decision-making

ISO

The International Organization for Standardization (ISO)

JUST TRANSITION

An investor statement presented at COP 24 (Conference of Parties) of the United Nations Climate Change Conference in December 2018 in Katowice, Poland. The statement reflects the commitment in the Paris Agreement that the transition to a low-carbon economy needs to be “both fast and fair” for workers and communities. Ruffer is a signatory to this statement, which has so far attracted support from 100 investors representing $5 trillion in assets under management[2]

KPI

A key performance indicator (KPI) is a metric often used in remuneration policies to assess a company’s performance against a set of targets or objectives

LIFE CYCLE ANALYSIS

Determines the environmental impact of a product through all stages, from its manufacture to its use and finally its disposal or recycling

NATURAL CAPITAL

Usually defined as the world’s stock of natural assets, such as air, water, soil and all living things, that combine to yield a flow of benefits to humans

NET CARBON FOOTPRINT

Total emissions from the production and use of energy products over their entire life cycle

PARIS AGREEMENT

A global agreement reached in December 2015 at the United Nations Climate Change Conference in Paris and ratified in October 2016 with the aim of limiting the global temperature rise this century to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C

PRI

The Principles for Responsible Investment (PRI) were launched in 2006. The Principles are voluntary and provide a number of different ways to incorporate ESG into a signatory's investment approach. By becoming a signatory to the PRI, investors commit to the following:

1. We will incorporate ESG issues into investment analysis and decision-making
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

Ruffer is a signatory to the PRI as part of our commitment to responsible investment

RESPONSIBLE INVESTMENT

At Ruffer, we interpret responsible investment as the incorporation of ESG considerations throughout our research and investment processes while behaving as active stewards of our clients' assets

SCENARIO ANALYSIS

A process of examining and determining possible events by considering various potential results or outcomes. With regard to climate change, it is a tool to understand better the potential implications of different increases in global average temperatures on a company's business, and to enable strategic thinking about long-term risks and opportunities

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

SOCIAL LICENCE TO OPERATE

Exists when a company has the approval of its employees, the local community and other stakeholders to continue to operate in the region

STEWARDSHIP

Active engagement with a broad range of stakeholders and voting at company meetings on behalf of our clients

STRANDED ASSETS

Assets that will not be able to earn an economic return for their full usable life. This can happen for a number of reasons including regulatory, economic or physical change and is particularly important in relation to conventional fossil fuel assets due to the length of their usable lives

SDG

The Sustainable Development Goals (SDGs) are a set of 17 global goals with 169 targets, launched by the United Nations in September 2015. The goals form part of the "2030 Agenda for Sustainable Development". They are contained in paragraph 54 of United Nations Resolution A/RES/70/1 of 25 September 2015

TAKEOVER DEFENCE MEASURES

These measures can take a number of different forms, one of which is referred to as a "poison pill". Often, this allows a company to issue stock warrants at a discount, which has the effect of diluting the ownership of the company pursuing the hostile takeover. This makes a takeover more expensive and so reduces its likelihood

TAILINGS DAMS

Physical structures used to store by-products from mining activities. Mined rock is ground and mixed with chemicals and water to extract the minerals and metals. Tailings are what are left once the minerals and metals have been extracted and usually take the form of a slurry of fine particles but can be solid or liquid

TCFD

The Task Force on Climate-related Financial Disclosures (TCFD) develops climate-related financial risk disclosures for companies to enable the provision of consistent data to a variety of stakeholders including investors, lenders and insurers

TPI

The Transition Pathway Initiative (TPI) is an asset owner-led initiative that tracks and evaluates how companies are managing their greenhouse gas emissions, and the risks and opportunities arising from the transition to a low-carbon economy

UNGC

The United Nations Global Compact (UNGC) is an initiative to promote responsible corporate citizenship, with 10 principles on human rights, labour standards, the environment and anti-corruption

1 Climate Action 100+ (2019), Progress report
2 LSE (2018), New report shows it is vital for investors to support a just transition for workers

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FURTHER INFORMATION

The following documents are available at ruffer.co.uk

- Previous reports
- A selection of articles on responsible investment topics
- ESG policy
- Engagement policy
- Voting policy
- Our response to UK Stewardship Code
- Our response to Japan Stewardship Code
- Climate change framework

RUFFER.CO.UK