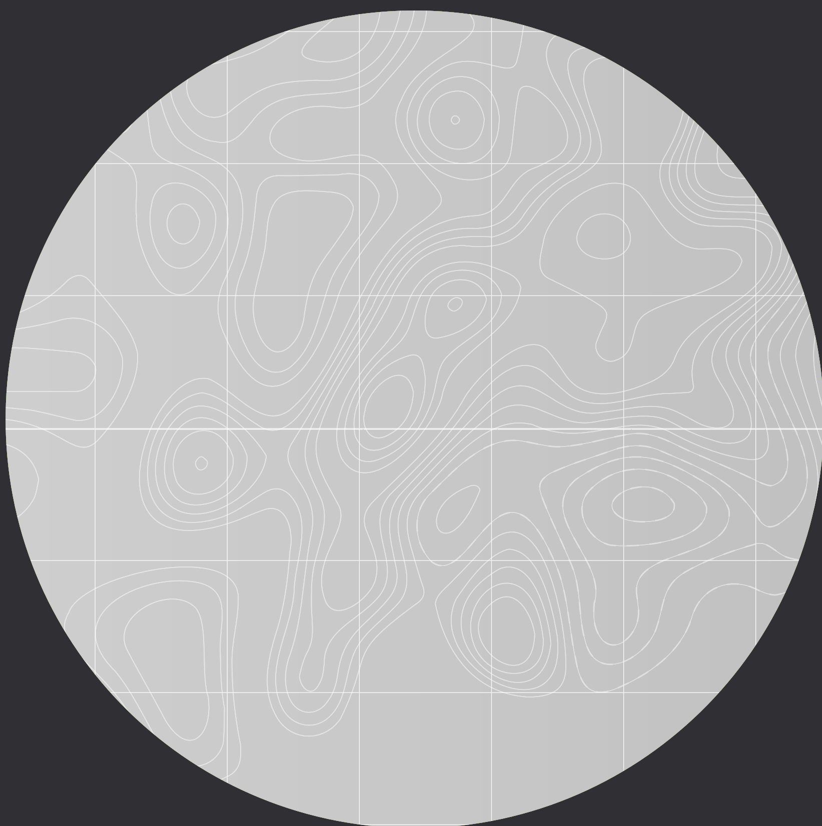
Responsible Investment Report



Q3 2020

Responsible investment at Ruffer

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

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

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

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

Overview of the quarter

IN A QUARTER THAT SAW THE WORLD still dealing with the implications of the covid-19 pandemic, some predicted that other challenges, such as climate change, would receive significantly less attention than was thought at the beginning of the year. However, the events of this quarter demonstrate that those predictions were far from correct. Instead, the pandemic seems to have reinforced commitments from both companies and countries.

Following the announcement from BP's new CEO, Bernard Looney, in February 2020 that BP would aim to become a net-zero emissions company by 2050 or sooner while supporting the world to achieve the same ambition, the company set out its plan in more detail in August and September. The strategy included repositioning the company from an 'International Oil Company' to an 'Integrated Energy Company' with a focus on scaling up investments in low carbon energy while reducing production of hydrocarbons by 40% by 2030.[1] This is in addition to focusing on significantly reducing the emissions from the company's operations and those from the products it sells. 'BP Week' saw senior management from across the business explaining the strategy and further announcements, such as BP taking a $1.1 billion stake in two of Equinor's wind projects in the US, which demonstrated the company's determination to deliver on its ambitions.[2]

1 bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/news-and-insights/press-releases/from-international-oil-company-to-integrated-energy-company.pdf
2 bp.com/en/global/corporate/news-and-insights/press-releases/bp-and-equinor-form-strategic-partnership-to-develop-offshore-wind-energy-in-us.html

> "China, the world's largest emitter of carbon dioxide, made a pledge in September to be carbon neutral by 2060"

The EU also continued with its drive to become the first climate neutral continent by 2050. In July, it announced its EU recovery package and budget for the next seven years with 30% of both funds committed to climate-related projects.[3] The Commission put the European Green Deal at the centre of the recovery package to ensure that instead of returning to the status quo, the recovery is resilient and sustainable. In September, the Commission published its proposal to increase the greenhouse gas emissions reduction target from 40% to 55% below the 1990 level by 2030.[4] This would align the 2030 target with the 2050 climate neutrality target, but would require unprecedented action in the decade ahead.

It is not just in Europe that significant commitments to address the issue of climate change are being made. In July, the Japanese government announced it would tighten criteria in relation to the overseas financing of coal plants after intense criticism.[5] While in August, US presidential candidate Joe Biden proposed a $2 trillion green energy plan.[6] Finally, China, the world's largest emitter of carbon dioxide, made a pledge in September to be carbon neutral by 2060.[7]

Looking ahead to the next quarter, at Ruffer we will continue to monitor these measures and further announcements as countries prepare for the delayed United Nations Climate Change Conference (COP26) in Glasgow next year. In addition, we will be focusing on implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and continuing to engage with companies on the issue of climate change, both independently and through collaborative initiatives such as Climate Action 100+.

3 ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1396
4 ec.europa.eu/commission/presscorner/detail/en/ip_20_1599
5 reuters.com/article/us-coal-japan-finance-idUSKBN24A0CH
6 wsj.com/articles/joe-biden-set-to-release-2-trillion-climate-agenda-11594738862
7 bbc.co.uk/news/science-environment-54256826

Tailings Dams

We have been mining the world's natural resources for thousands of years. Yet the global demand for these is only likely to increase in the future, given their role in supporting economic and social progress and enabling innovations and technologies that are needed to address climate change.

CHARALEE HOELZL
Investment Manager

AS A BY-PRODUCT OF THE MINING PROCESS, the global mining industry produces billions of tonnes of mine tailings each year. This waste material is stored in tailings dams, which are among some of the world's largest engineered structures. It has been estimated that there are approximately 18,000 mine tailings storage facilities globally, of which 3,500 are currently active.[1]

NECESSARY HAZARDS?

Several recent and catastrophic tailings dam collapses have brought into focus the complex interaction between a mine site and the local community and environment in which it operates. The failure of the tailings dam at the Córrego do Feijão iron ore mine in Brumadinho, Brazil, in January 2019 is one of the most devastating. When the dam collapsed, 12 million m^3 of toxic mining waste surged through the mine site towards the town below, killing 270 people and causing widespread environmental and socio-economic damage.[2] It followed another failure of the Fundão tailings dam in Mariana only four years earlier, in the same state in Brazil and by the same mine owners; at least 19 people were killed when the dam breached and abruptly discharged over 43 million m^3 of tailings, polluting the region's most important river, the Rio Doce, and causing what has been termed the biggest environmental disaster in the global mining industry.[3]

The subsequent rise in scrutiny and renewed sense of urgency to understand the risks posed by tailings facilities and their potential for failure has been preceded by decades of stakeholder campaigns along with calls for greater public disclosure and corporate accountability.[4] Yet the failures at Mariana, and then Brumadinho, were evidence that change was not happening from within the industry.

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.

1 churchofengland.org/investor-mining-tailings-safety-initiative
2 259 people have been officially confirmed dead and 11 people reported as missing: vale.com/EN/aboutvale/reports/atualizacoes_brumadinho/Pages/updated-lists.aspx
3 Flávio Fonsecado Carmo et al (2017) 'Fundão tailings dam failures: the environment tragedy of the largest technological disaster of Brazilian mining in global context', Perspectives in Ecology and Conservation 15, 145–151
4 Owen J.R., Kemp, D., Lebre, E., Svobodova K. and Perez Murillo, G. (2019) 'Catastrophic tailings dam failures and disaster risk disclosure', International Journal of Disaster Risk Reduction

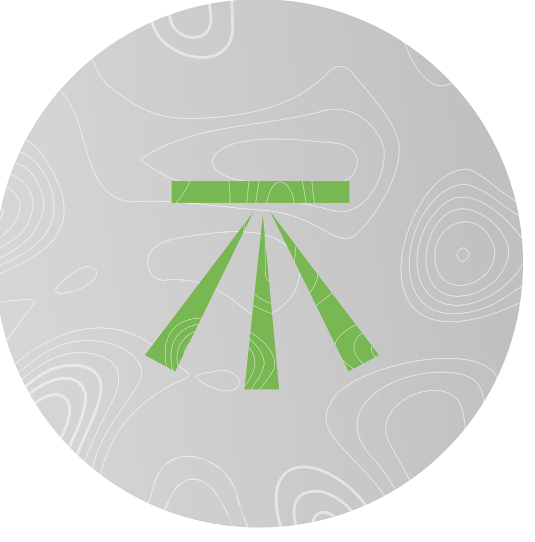
In early 2019, efforts gained momentum when a group of institutional investors (now representing more than $13 trillion assets under management)[5] governed through a steering committee chaired by the Church of England Pensions Board and the Council on Ethics of the Swedish AP Funds established an investor-led engagement initiative, known as the Investor Mining and Tailings Safety Initiative (the 'Initiative'; Ruffer began supporting the Initiative in April 2019.

This has led to several key interventions.

AN INTERNATIONAL SAFETY STANDARD

First, the Initiative called for a new, independent international standard for tailings dams.

In response, and in collaboration with the Principles for Responsible Investment (PRI), the United Nations Environment Program (UNEP) and the International Council on Mining and Metals (ICMM) a Global Tailings Review was commissioned. On 5 August 2020, the Global Industry Standard on Tailings Management (the 'Standard') was launched. The Standard establishes a first of its kind international benchmark and sets a new normative aspiration for the management of tailings facilities by declaring an 'ultimate goal of zero harm to people and the environment, with zero tolerance for human fatality.'[6] By establishing clear expectations around transparency, accountability and safeguarding the rights of affected people, it is hoped the Standard will mark a step change in the industry.



Global Industry Standard on Tailings Management

- I Affected Communities
- II Integrated Knowledge base
- III Design, Construction, Operation and Monitoring of the Tailings Facility
- IV Management and Governance
- V Emergency Response and Long-term recovery
- VI Public Disclosure and Access to Information

5 As at 22 September 2020: churchofengland.org/investor-mining-tailings-safety-initiative
6 globaltailingsreview.org

OPEN LETTER REQUESTING GREATER DISCLOSURE AND A GLOBAL TAILINGS DATABASE

Secondly, the Initiative issued an open letter to 726 companies requesting public disclosure on specific questions about their tailings facilities. With this information, the world's first global database of mine tailings facilities was launched in January this year, allowing public access to detailed information on more than 1,800 tailings dams around the world, categorised by location, company, dam type, height, volume and risk, among other factors.[7]

The first round of disclosures has captured many of the world's largest tailings dams operated by publicly listed companies, but the project intends to increase the number of dams described and be 'a global hub, providing up to date and reliable information on tailings storage facilities, in the public interest.'[8]

NEXT STEPS FOR RUFFER

As a supporter of the Investor Mining and Tailings Safety Initiative, we have been engaging with companies over the last 18 months on their disclosures and encouraging companies that have so far not yet responded, to do so. For some time, Ruffer has held a material weighting in gold mining companies. This issue of tailings management is therefore relevant to a number of the companies in which we are invested and we joined the Initiative as we agree with its aims and what it is trying to achieve.

Looking forward, it is hoped that the tailings database and the public disclosure provisions in the Standard will drive a new level of transparency in the mining sector and encourage companies, regardless of their size, to view tailings management as an industry problem that requires a collective industry solution. At the same time, it is expected that these disclosures will enable investors to develop an assessment framework to analyse companies' tailings management and hold their management to account if necessary. At Ruffer, we will continue to include these factors in our engagements on environmental, social and governance considerations with mining companies in our portfolios.

7 As at 22 September 2020: tailing.grida.no
8 tailing.grida.no/about

Stewardship activities in brief

COMPANY	SUMMARY
ARCELORMITTAL	A Climate Action 100+ update call to discuss the setting of greenhouse gas emissions targets for the company as a whole, and the possibility of linking these targets to executive remuneration.
NEWMONT	A discussion on the progress the company has made on tailings dams management, in particular their plans to comply with the new Global Industry Standard introduced in August 2020.
CREST NICHOLSON	A discussion on the progress of the company's sustainability strategy. We provided feedback on what we look for in investee companies in terms of sustainability framework, strategy and reporting and what we consider to be best practice among the UK housebuilding industry.
ORIX	A discussion on the independence of a proposed new board member, the role of academics on the board and our concerns regarding the size of the board.
MITSUI FUDOSAN	A discussion on our concerns regarding how cross shareholdings at the company limit the independence of directors.
ROYAL DUTCH SHELL	A discussion on the updated greenhouse gas emissions targets the company had set, focusing in particular on its net carbon ambitions for 2050.
H&M	A discussion on the sustainability policy of the business and how it manages issues surrounding supply chain transparency.

Further detail can be found in our Stewardship Activities report, at ruffer.co.uk/responsibleinvestment

Newmont

NEWMONT 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 mining companies in the world.

Issues: Environmental, social – tailings dams

IN THE AUTUMN OF 2019, we met with the new CEO of Newmont, Tom Palmer. In addition to discussing his strategic outlook, we focused specifically on the issue of tailings dams as we consider these structures to represent a material risk to mining companies, like Newmont, and the sector as a whole. The recent catastrophic dam collapses brought together a group of investors, including Ruffer, who believe that the way tailings are managed needs to significantly change to protect the environment and communities around the dams and thereby preserve the sector's 'social licence to operate'. These occurrences aren't black swan events though as, unfortunately, numerous tailings dams collapse around the world each year. Instead these events are better categorised as 'gray rhinos' – a highly probable, high impact yet neglected threat. It is therefore part of our duty to our clients to be thinking about this risk for all mining companies in which we invest.

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

Black swan events

Incidents that have a severe impact but are extremely rare

Newmont is one of the largest gold mining companies in the world. Therefore, it is right that as investors we expect them to be providing leadership to the sector in addressing the issues caused by tailings dams and in finding long-term alternative solutions. When we met with Tom Palmer, we were encouraged that he, along with other senior management, had visited a number of the company's tailings dams.

Following the publication of the new Global Industry Standard on Tailings Management (see previous article) in August 2020, we spoke with Steve Gottesfeld, Chief Sustainability Officer, and Dean Gehring, Chief Technology Officer, at Newmont. We wanted to understand the changes the company is making to ensure it is appropriately managing this risk and meets the new standard. We were encouraged that the company has made changes to ensure there are clear lines of accountability and, given the complexity of tailings dams and the limited number of expert engineers, is managing this risk at the corporate, rather than the mine, level. Importantly, we focussed a lot of the discussion on the culture of the company to ensure that, if at all possible, catastrophic events are avoided. We recognise that the success of the new standard will depend on it being embedded through the organisation with strong leadership from senior management. As responsible stewards of our clients' assets, we will continue to engage with the company as it works to implement the new standard in addition to incorporating the outcomes of our stewardship activities into our investment thesis.

About Ruffer

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

To invest well, we need to take on risk. With risk comes great responsibility. Our preoccupation is with not losing money, rather than charging headlong for growth. It's by putting safety first that we have made good money for our clients. Through boom and bust. For over 25 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value substantially.

We recognise that environmental, social and governance (ESG) considerations are important drivers of investment performance, representing both sources of value and investment risks. Therefore, incorporating these considerations into our investment approach forms an essential part of our responsibility to our clients.

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

HOW WE DO IT

Integration	ESG risks and opportunities are considered throughout our investment process
Engagement	Directly engaging with companies is a key part of our investment process
Voting	Equity investing comes with rights and responsibilities – we take this seriously

We are signatories and supporters of: