Responsible Investment Report

Q4 2021

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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. They represent both sources of value and investment risks. Fully incorporating these considerations into our investment approach forms an essential part of our responsibility to 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.

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

Ruffer are 'climate neutral'. We are signatories and supporters of

Overview of the quarter

COP26 BORE THE BURDEN OF EXPECTATION. OPTIMISTS WERE LEFT DISAPPOINTED. BUT CYNICS MAY HAVE FOUND CAUSE FOR HOPE.

Many column inches have been devoted to assessing the success of the conference. This quarterly report doesn't weigh in on that discussion, but it would be remiss not to make a few important observations.

On the plus side: several key delegates increased the speed and scale of their decarbonisation efforts – notably India, the third largest global emitter of CO2[1]; more than 100 countries signed the Global Methane Pledge to reduce emissions by 30% by 2030[2]; and 141 countries signed a declaration committing to halt – and reverse – deforestation by the end of this decade.[3]

Crucially, there was no international agreement on global carbon pricing. And we remain short of the $100 billion climate financing target for emerging economies.

Most of us can agree when it comes to addressing the climate challenge, deeds trump words. But words are important too, and instructive for investors.

For example, parties at COP26 agreed to 'phase down' (as opposed to 'phase out') coal usage – an implicit acknowledgement we will remain heavily reliant on fossil fuels for years to come. This reliance informs our continued engagement with energy companies and is the subject of the Engagement in Focus article later in the report.

1 Financial Times, November 2021
2 Reuters, November 2021
3 UK COP26.org

Of course, ESG risk is not confined to equity markets. Sovereign debt comprises a significant part of the Ruffer portfolio, and we have worked hard to extend and improve internal ESG analysis of sovereign bonds. We have designed a framework to help us achieve a holistic understanding of fixed income risk. Research Associate, Alexander Jones explores this in more detail in this quarter's thought piece on page 10.

Elsewhere, we provide an update on the stewardship activities carried out across the quarter and share details of our efforts to drive enhanced corporate disclosure on environmental topics through the CDP non-disclosure campaign.

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Stewardship activities in brief

COMPANY	SUMMARY
ACTIVISION BLIZZARD	A meeting initiated with the company to discuss the recent, serious allegations of misconduct and to understand the company's culture, internal controls, initiatives to address employee concerns, how it is approaching human capital questions such as recruiting and retaining talent and succession planning.
ARCELORMITTAL	A call with ArcelorMittal during the final consultation period for the Climate Action 100+ Net Zero Benchmark, which will be finalised at the end of the year. We discussed remuneration, lobbying, and the potential for shorter term greenhouse gas emissions reductions targets.
BARCLAYS	A follow-up meeting to our initial engagement in Q3, focusing on the bank's progress in extending its greenhouse gas emissions reductions analysis, reporting and target setting for its financing portfolio beyond the initial sector coverage, as well as board diversity and an update on succession planning following the recent CEO transition.
CHESAPEAKE ENERGY	A wide-ranging discussion covering the company's ESG approach following its restructuring and recent CEO appointment, as well as how the company views its role in the low-carbon transition and its progress on reporting and disclosure.
COTY	Our first engagement meeting with the company focusing on its governance practices and to discuss the initiatives and targets set out in its latest sustainability report.
CURRYS	An introductory call with Currys' new Sustainability Director covering a wide range of topics covered in the company's ESG roadmap.
EQUINOR	A Climate Action 100+ working group call to discuss the company's energy transition plan as well as its position on biodiversity and climate-related lobbying.

II-VI	We engaged with the company to assess our voting decisions ahead of the Annual General Meeting (AGM), in particular to evaluate its board structure and effectiveness, including its succession planning for long-tenured directors.
INTERNATIONAL PETROLEUM CORPORATION	A follow-on discussion with the company regarding its approach to reducing its greenhouse gas emissions by 50% by 2025 and the importance of a clear Net Zero ambition.
PFIZER	An introductory discussion on the company's climate strategy, governance and accountability for ESG initiatives, its lobbying disclosures, and access to medicine including its covid-19 vaccine and pill in emerging markets.
ROYAL DUTCH SHELL	A meeting to discuss the company's climate transition strategy, including its recent announcement of absolute greenhouse gas emissions reduction targets, its carbon offsets strategies and to receive an update on its operations in Nigeria. Although we engage with Shell collaboratively as part of Climate Action 100+, this was an introductory meeting that will form part of an ongoing, individual engagement with the company.
TEIKOKU SEN-I	A follow-on discussion on director independence, cross-shareholdings and the company's use of a 'poison pill' (a defense tactic to prevent or discourage hostile takeover attempts).
TOEI ANIMATION	A conference call during which we expressed our concern over the lack of independent board members, following our decision to vote against the appointment of one outside director at this year's AGM.
VOLKSWAGEN	A follow-on discussion covering Volkswagen's decision not to join the auto manufacturers' Net Zero pledge, its plans to ensure a sustainable supply chain, in battery production and at its China operations, the company's electric vehicle strategy, the 'Dieselgate' scandal and how ESG performance is linked to its executive remuneration policies.

Further detail can be found in our Stewardship Activities report, available at ruffer.co.uk/2021-Q4-stewardship

Engagement in focus

ROYAL DUTCH SHELL is a major energy producer in the UK and produces oil and gas from more than 50 interests in the North Sea. It produces around 10% of the UK's oil and gas.

ALEXANDER JOHNSTONE
Investment Associate

The energy sector has been in the spotlight in recent months. Supply shortages caused energy prices to skyrocket in September, highlighting the global economy's continued reliance on fossil fuels. This was followed by COP26, where the energy transition topped the agenda. The inevitable conclusion is twofold: on the one hand, fossil fuels are essential to the near-term functioning of society, on the other, governments and companies need to act rapidly to reduce fossil fuel consumption. Herein lies the conundrum for the responsible investor.

OPPORTUNITY FROM DIFFICULTY

Energy majors are in the eye of the storm. At Ruffer, we believe the global energy mix is moving away from oil and gas and towards renewables. However, in the short-to-medium term, the combination of reduced exploration and production, and a rebound in demand as economies re-open, is likely to push up oil and gas prices and increase cashflows for energy stocks. In the longer term, if these companies can decarbonise their business models in line with the goals of the Paris Agreement and become global leaders in the low-carbon transition, the value of their shares could re-rate significantly.

ENGAGEMENT TO ENCOURAGEMENT

Given the nature of climate change risk, we believe collaborative engagement is an important and effective tool. As such, we were a founding signatory of Climate Action 100+ in December 2017, an investor-led initiative aiming to ensure the world's largest corporate greenhouse gas emitters take the necessary action on climate change. Engaging as part of a collaborative group can amplify Ruffer's voice.

Supermajors

The supermajors are the six largest, integrated and publicly traded oil and gas companies: BP, Chevron, Eni, ExxonMobil, Royal Dutch Shell and Total.

Carbon intensity

One of the primary ways of monitoring the low-carbon transition. Shell measures this by average intensity weighted by sales volume, so it is a relative measure.

Absolute carbon reduction

Another way to monitor the low-carbon transition, arguably a more meaningful metric as it is an absolute measure (tonnes of CO_2 reduced) rather than as a ratio to sales or profit.

As a significant Ruffer holding, Royal Dutch Shell is a good example to consider. One of six 'supermajors' (the world's largest publicly owned oil and gas companies), Shell is facing increased investor scrutiny. Not only are its operations carbon-intensive, but the combustion of its products is a major contributor to greenhouse gas emissions (known as scope 3 emissions).

We have engaged with Shell for a number of years, both independently and collaboratively. Within its peer group, we view the company as one of the ESG leaders. It was the first energy major to introduce ESG-linked remuneration policies in 2018 (16,500 staff now have their pay linked to the company's Net Zero strategies) and it announced its first carbon reduction targets in 2019. However, we believe Shell can do more.[1]

As part of the Climate Action 100+ Working Group on Shell, we engaged with the company in 2019, 2020 and 2021. The focus has been to push the company to be more ambitious in its targets, and to encourage more disclosure and interim targets so investors can monitor its progress.

WORDS AND DEEDS

Shell has committed to a Net Zero carbon footprint by 2050. It plans to invest heavily in both renewable and hydrogen energy generation, as well as carbon capture through innovative technology and nature-based solutions. Shell has set interim targets to reduce the carbon intensity of all products by 6-8% by 2023, 20% by 2030, and 45% by 2035, across scopes 1, 2 and 3 emissions. This means reducing the average amount of greenhouse gas emissions produced for each unit of energy sold and consumed.

Intensity reductions such as these are an important part of the transition, but 'absolute' carbon reductions will be necessary to meet the goals of the 2015 Paris Agreement. As a result of pressure applied by

2015 Paris Agreement

A global agreement reached in December 2015 at the United Nations Climate Change Conference (COP21) in Paris and ratified in October 2016 with the aim of limiting the global temperature rise this century to well below 2°C above preindustrial levels and to pursue efforts to limit the temperature increase to 1.5°C.

1 Data provided by Royal Dutch Shell unless otherwise specified

shareholders and environmental groups, Shell announced its first absolute reduction target in October this year, aiming to reduce emissions by 50% from 2016 levels by 2030, across scopes 1 and 2 emissions.

In November, we commended Shell on this new target, but encouraged the company to introduce absolute reduction equivalents of their current carbon intensity targets, so investors can monitor real-world decarbonisation progress and hold the company to account. While ideally this target would include scope 3 emissions (which account for 90% of Shell's total emissions), we acknowledge this would require significant shifts in consumer behaviour.

LED BY CONSUMERS

The low-carbon transition is nuanced and will require companies to contribute in different ways. While some of the supermajors – in particular Total and BP – are concentrating on renewable energy generation, Shell's primary focus is on the consumer end. As the energy major most involved in the downstream sector, we think this makes sense. Its 'Powering Progress' strategy aims to bring premium low-carbon solutions for transportation and electricity. By 2030, this means providing renewable electricity for 50 million households and installing 2.5 million electric vehicle charging points. We agree consumer habits must change in order to reduce fossil fuel demand. Credible transition strategies are essential to meeting the goals of the Paris Agreement. Investors must maintain pressure on companies such as Shell to ensure they deliver on their commitments.

TRANSITION NOT TRUNCATION

On a global basis, we now use three times as much energy as we did 50 years ago and demand continues to grow.[2] Despite significant progress in renewable energy generation, fossil fuels still make up 80% of our global energy mix.[3] Energy majors will play a central role in the low-carbon transition. A diverse and engaged ownership will drive these companies to be more transparent in their disclosure and more ambitious in their targets. We believe Shell understands the importance of the shift away from carbon. However, as CEO Ben van Beurden said at COP26, it needs to be an energy transition, not an energy truncation. While fossil fuels remain necessary for society and a profitable business in the short term, we will continue to engage with Shell and other investee companies on their plans for a low-carbon future.

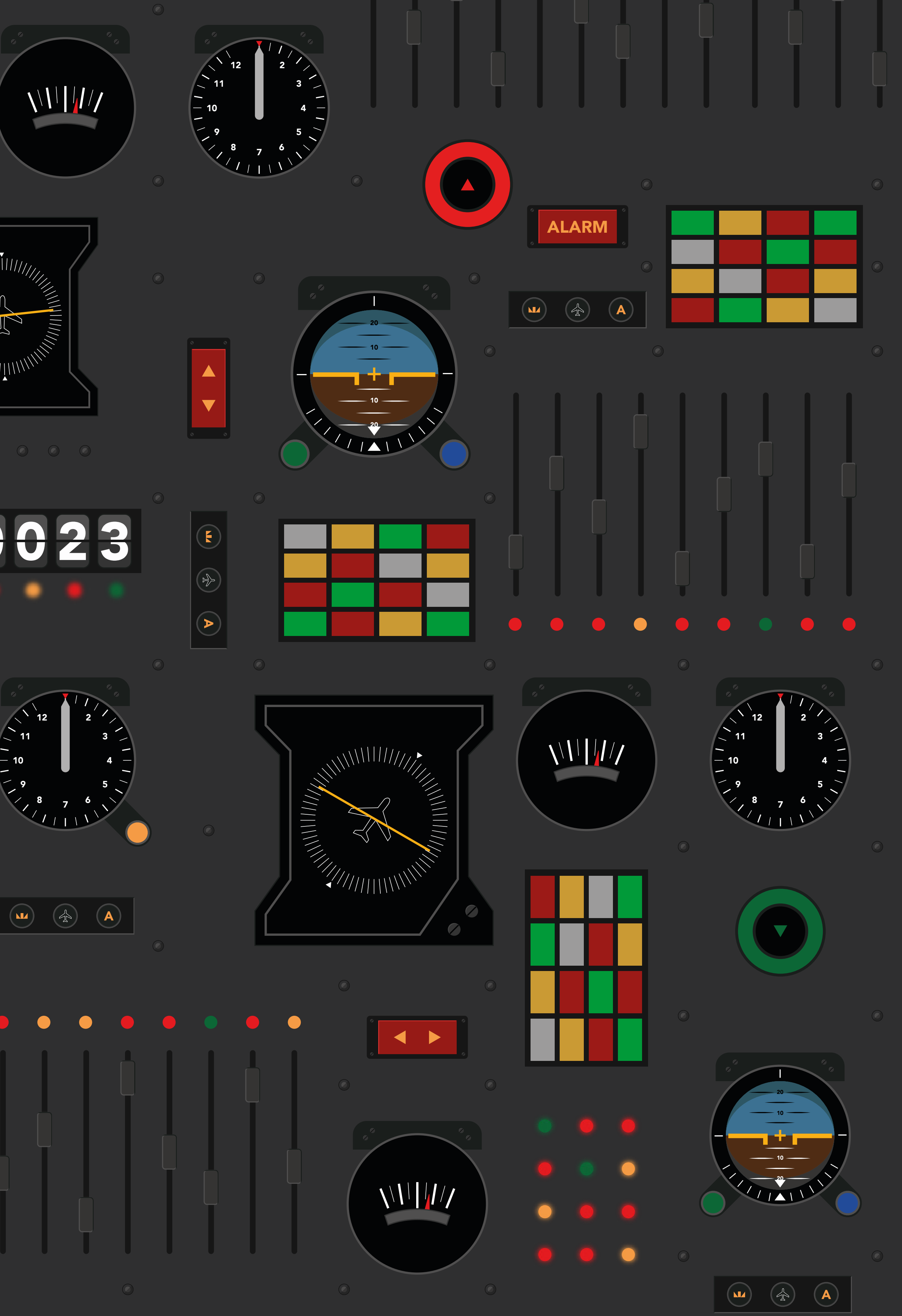
2 BP Statistical Review of World Energy 2021
3 Ibid

Scope 1, 2 and 3 emissions

1. From sources owned or controlled by the company, typically direct combustion of fuel.
2. Caused by the generation of electricity purchased by the company.
3. Indirect emissions resulting from business activities such as travel, distribution of products by third parties, and downstream use of a company's products.

Downstream sector

The refining, processing and marketing of oil and gas.The upstream sector is focused on exploration and extraction.


ALARM

Fixing the framework for fixed income analysis

Earlier this year, a Ryanair passenger flight heading from Athens to Vilnius was alerted to an onboard bomb threat whilst flying over Belarusian airspace. It was subsequently ordered to make an emergency landing in Minsk, escorted by a fighter jet. However, the true motive behind the forced grounding soon became clear, as political activist Roman Protasevich was swiftly removed from the plane and detained by the Belarusian government.

What does this have to do with investing in bonds?

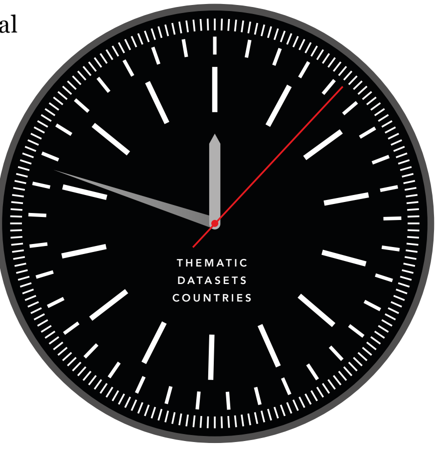
MORE THAN MEETS THE EYE

In the aftermath of the arrest, the EU imposed a series of sanctions on Belarus, including a ban on European investors from purchasing new debt issued by the Belarusian government. This is not the first time that human rights violations have impacted sovereign bond markets. Fixed income investors have begun to take a more active approach to considering governance, as well as environmental and social factors, in their risk analysis. Environmental, social and governance (ESG) forces are becoming an increasingly significant driver of returns as, for instance, extreme weather events have a greater impact on the performance of the domestic economy. Crucially, sovereign bond investors are a key source of finance for governments, so they have the bargaining power to push policy towards greater ESG risk mitigation.

A HOLISTIC AND IMPERFECT MODEL

We have been building a framework to assess the underlying ESG risks in our sovereign bond holdings (we don't directly hold any corporate issues), to sit alongside and complement our traditional investment analysis of debt instruments. We have built an internal proprietary model to assist us in identifying and assessing sovereign ESG risks, consisting of country-level indicators to gauge each sovereign issuers' exposure. It is impossible to perfectly model every individual factor, but our sustainability framework includes a wide-ranging set of measures.

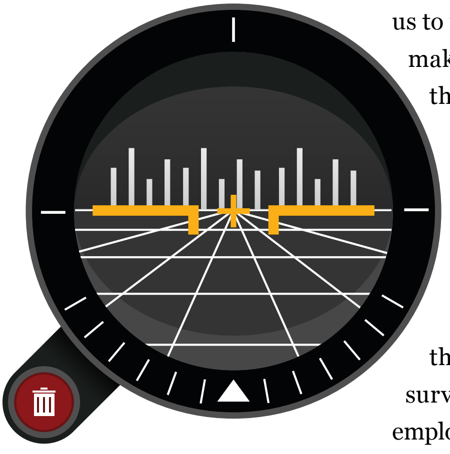
Climate risk may generate the most headlines, but there is so much more to consider beyond just CO2 emissions. We analyse environmental inputs ranging from renewable energy usage to waste recycling, and even population studies assessing physical climate risk in low-lying areas. From a social and governance perspective, indicators are equally broad, touching on health and education, female labour force participation, and measures of political stability and corruption. In total, we assess 14 thematic factors using 37 internationally comparable datasets, for over 180 countries. The output of the analysis is a sustainability score assigned to each sovereign issuer. The model also allows us to identify where dangers for a particular sovereign are concentrated, giving us a basis for areas to focus future engagement.[1]



One potential issue with this framework is the strong correlation between a country's ESG score and a country's level of development. More developed economies naturally tend to have stronger democratic institutions in place, and more stringent social and environmental laws: it is easy for models to over-penalise developing economies.

1 As at December 2021, Ruffer portfolios hold UK, US, Japanese and Brazilian government bonds

Transitioning to a greener, cleaner economy won't come cheap: it will require a large amount of investment



To avoid this, we assess the development of a country's ESG profile over time, to try to understand which governments have been taking action and making improvements. Our framework allows us to identify the areas in which different governments have been making the greatest strides, and where there is still room for them to catch up. This gives us a more holistic, fairer model, not one conditional on a country's initial level of wealth.

ACTING ON ANALYSIS

The implementation of this framework is complicated.

Some investors have taken the decision to simply 'dump' the bonds of high-ESG-risk issuers. According to a recent survey conducted by Morgan Stanley, negative ESG-screening is employed by 45% of investment grade lenders.[2] We aren't sure this is the best option. Using a strict, rules-based, static framework to blacklist countries that fall below a pre-determined grade will reduce the capital available for those most in need of funding for economic, environmental and social development. Transitioning to a greener, cleaner economy won't come cheap: it will require a large amount of investment (and debt issuance) by governments and corporates alike. Moreover, investors are more likely to blacklist emerging markets, which will increase their borrowing costs, leading to lower growth in these countries and further economic divergence with the developed world.

Another difficulty in excluding poorly scoring sovereign issuers is defining where to draw the line. The US is the world's second biggest CO2 emitter,[3] but with climate change at the centre of President Biden's agenda, there is plenty of scope for improvement. The US Treasury market is the world's largest and most liquid bond market; US government debt makes up 39% of the FTSE

2 Morgan Stanley (2021), ESG Fixed Income Investor Survey
3 CarbonBrief (October 2021)

World Government Bond Index.[4] To exclude US sovereign debt from portfolios would require a degree of conviction which has, thus far, eluded most investors.

ONE SIZE DOES NOT FIT ALL

Transitioning to a more sustainable world is highly complex and the sovereign framework we have created is not about binary investment outcomes. Instead, it gives us a three-dimensional understanding of the different sustainability risks facing sovereign debt issuers at a time of growing scrutiny and pressure on governments. This information should enhance our investment decision making and risk management of portfolios and assist us in identifying key areas for engagement with policy makers. In recent years, we have engaged with national policy makers in the UK and overseas on topics from future debt issuance to sustainability regulations and disclosures. Market-wide fixed income ESG analysis and engagement may still be in its infancy, but it has the potential to have a powerful impact on some of the world's most pressing issues.

ALEXANDER JONES

Research Associate

4 FTSE Russell (December 2021)

The CDP non-disclosure campaign

LORENA CEBUC

Associate – Responsible Investment

NORMALISING CLIMATE CHANGE DISCLOSURE

Climate change, deforestation and water security are three of the most urgent and severe threats facing investors today. To mitigate these risks, we need better transparency in the form of dependable and comparable data.

This year Ruffer participated in the CDP Non-Disclosure Campaign, an investor-led engagement, to drive enhanced corporate disclosure on environmental topics.

CDP (Carbon Disclosure Project) is a global non-governmental organisation (NGO) helping companies to disclose comparable and meaningful environmental data. The Non-Disclosure Campaign targets companies which have not yet disclosed emissions data or those who have ceased disclosing data on a material issue.

In 2021, over 1,300 companies were selected for the campaign. Collectively they have a market capitalisation of $28 trillion and emit 4,700MT of CO_2 equivalent (close to 10% of global emissions). The campaign gained support from 168 global investors, including Ruffer.[1]

DATA UNDERPINS INVESTMENT PROCESS

The importance of consistent disclosure is twofold. Understanding and analysing the carbon footprint of an organisation is a fundamental first step if companies are to structure their commitment to the climate transition and environmental preservation.

Reporting will help companies track and showcase their progress towards reaching sustainability goals, identifying risks, and uncovering opportunities related to the climate transition. Additionally, CDP reporting is compatible with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

1 Carbon Disclosure Project

Investors can also rely on CDP data for consistent and comparable information to assess potential carbon, water and biodiversity risks.

At Ruffer we integrate these climate change risks into our investment process, and CDP data provides a valuable insight into how companies manage these risks.

ENGAGEMENT

Ruffer has taken the lead on seven mining companies to which our clients have direct or indirect exposure. We have engaged directly with the respective boards and sent a letter which was signed by other investors. We explained the importance of disclosure and asked for increased disclosure to the CDP. In addition, Ruffer was a co-signatory for 25 other companies across various sectors.

We were pleased with the progress of this campaign. Four companies, Hochschild Mining, Regis Resources, SSR Mining and Gem Diamonds, completed their questionnaire requests on climate change, forests or water.

Northern Star Resources, Gold Fields and Harmony Gold only partially responded to the questionnaire. In the case of Gold Fields, they explained their preference for TCFD disclosure rather than CDP for climate change reporting.

Where companies fail to respond or any material gaps are evident in reporting, it is identified as part of our ongoing engagement with these businesses, with escalation mechanisms possible if we are unsatisfied with the response.

Disclosure through CDP has increased by 37% year-on-year across climate change, water security and deforestation, and we expect further positive outcomes on publication of the report in early 2022. Participation in the 2021 CDP campaign highlights the power of collaborative engagement and we look forward to increasing the breadth of our involvement in 2022.

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 26 years. If we keep doing our job well, we will protect our clients' capital – and increase its real value substantially.

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

Our decision to invest in companies is based on both fundamental and ESG analysis. As part of the investment process, our 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. Likewise, the risks associated with weak corporate governance practices are evaluated. 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.

OUR RESPONSIBLE INVESTMENT FRAMEWORK