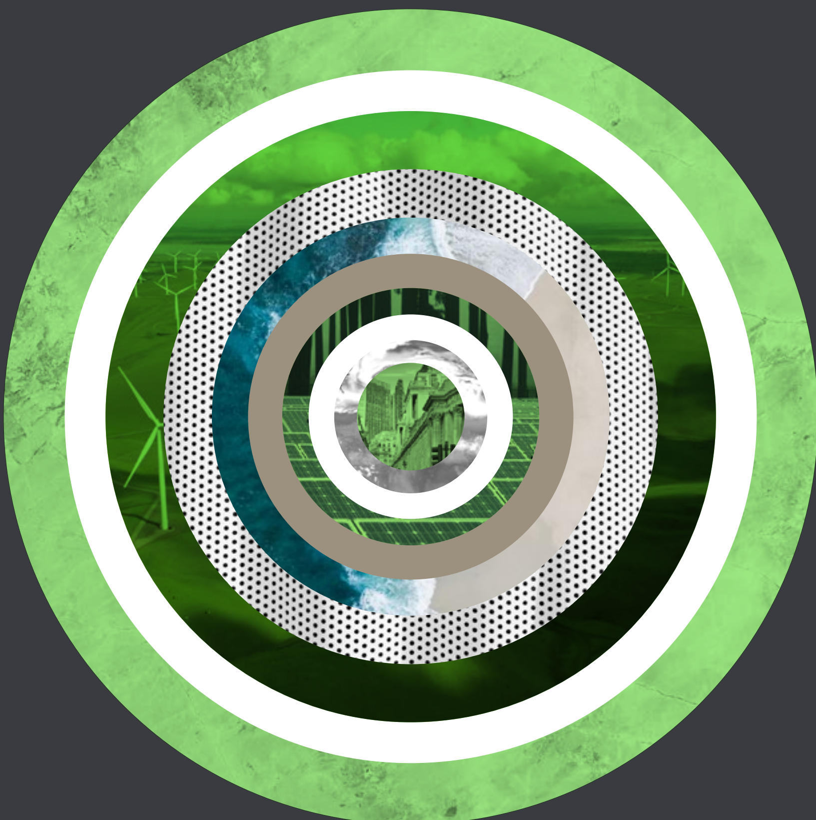
Responsible Investment Report



Q1 2022

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

Overview of the quarter

THE CONSEQUENCES OF RUSSIA'S INVASION OF UKRAINE ARE TRAGIC AND FAR-REACHING.

First and foremost, at the humanitarian level, and also for the global economy. The implications for investors are profound: in terms of the governance and corporate responsibility of investee companies, and the energy crisis which has unfolded.

In some camps, there are concerns the war in Ukraine has dealt a blow to Net Zero ambitions. Others believe the heightened sense of urgency provides an opportunity to accelerate the switch from fossil fuels to green alternatives. US President Joe Biden, for example, took to Twitter to urge the United States to become energy independent so "tyrants like Putin won't be able to use fossil fuels as a weapon." The challenge for governments, corporations and investors is to integrate burgeoning plans to improve energy security without compromising the transition to Net Zero.

A stark reminder of the magnitude of the challenge before us came from the United Nations' Intergovernmental Panel on Climate Change. Their most recent publication stated that 40% of the world's population, as many as 3.6 billion people, now live in countries 'highly vulnerable' to climate change.[1] It concludes that just a small further temperature rise could trigger significant risks to life.

In this quarter's report, Investment Director Harry Sevier looks at the crucial role banks can play in facilitating the transition to Net Zero.

1 IPCC Sixth Assessment Report, Climate Change 2022: Impacts, Adaptation and Vulnerability

He discusses how Ruffer has engaged with the financial services companies in which we invest to shape effective, long-term strategies. We also include the usual update on our stewardship activities throughout the quarter.

In March, we became a signatory to the Net Zero Asset Managers initiative. This commits Ruffer to developing a robust and thoughtful Net Zero climate strategy for our clients' assets and we look forward to sharing further updates throughout the year.

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Stewardship activities in brief

COMPANY	SUMMARY
AENA	A meeting to discuss the company's board structure ahead of the AGM, where we voiced our concerns over the combined CEO and Chairman role, which we do not view as best practice.
BAYER	A call with senior members of Bayer's sustainability team which covered ongoing litigation issues, genetic modification, remuneration policies and the company's relationship with ESG ratings agencies.
BP	A written response to a letter from the Chair of the Remuneration Committee to shareholders on executive pay. We shared our thoughts on the current remuneration policy and suggested that the use of upward discretion in the vesting of awarded shares was inappropriate in the context of management and share price performance over the period.
CHESAPEAKE ENERGY	A call to discuss the new remuneration policy proposed by the Board, focusing on the structure and alignment of incentives, including ESG metrics, in the annual incentive plan as well as the process involved in formulating the policy.
DASSAULT AVIATION	A meeting that focused on sustainability but also covered the company's employee relations, business practices, and disclosure with ESG ratings agencies.
FUJITEC	A meeting to debate strategy and capital structure that included a discussion on the company's plan to unwind its cross-shareholdings.
GMO INTERNET	A meeting with Investor Relations to discuss various governance issues relating to the structure of the board.

HENSOLDT	A discussion covering sustainability targets, board composition and remuneration to better understand the company's corporate governance framework and sustainability strategy as a basis for future engagement.
MITSUBISHI UFJ FINANCIAL GROUP	A call with the newly appointed Chief Sustainability Officer that built on our engagement last year. We discussed the company's climate change strategy and approach to target-setting, as well as its ESG framework that is applied to new transactions.
OTSUKA	A meeting to discuss board structure, aimed at improving governance and encouraging best practice, as well as remuneration.
SHELL	An introductory call with the Chief Financial Officer to establish a direct relationship with the Shell management team, with the intention of collaborating on the company's energy transition plans. We also engaged with Shell as a part of Climate Action 100+ and discussed the current challenges in European energy markets and progress made so far on the energy transition.

Further detail can be found in our Stewardship Activities report, available at ruffer.co.uk/2022-Q1-stewardship


VILLAINS TO HEROES: THE ROLE OF BANKS
IN THE TRANSITION TO NET ZERO

Banks are rarely the first port of call in a responsible investor's portfolio. The preference has been to allocate capital to companies directly involved in climate risk mitigation – electric vehicle manufacturers or renewable technology businesses. But financial services have a pivotal part to play in the transition to Net Zero and investor engagement is critical in determining how banks stand up to the climate challenge.

FROM OUTCAST TO OPPORTUNITY

Banks were at the epicentre of the global financial crisis (GFC). Poor governance and excessive risk-taking were exposed in the wake of the crisis and shareholders fled in their droves. Post-2008, an ultra-low interest rate environment coupled with significant regulatory change has put pressure on profit margins across the sector. Accordingly, investors have been reluctant to reallocate to the banks and valuations remain a long way from pre-crisis levels.

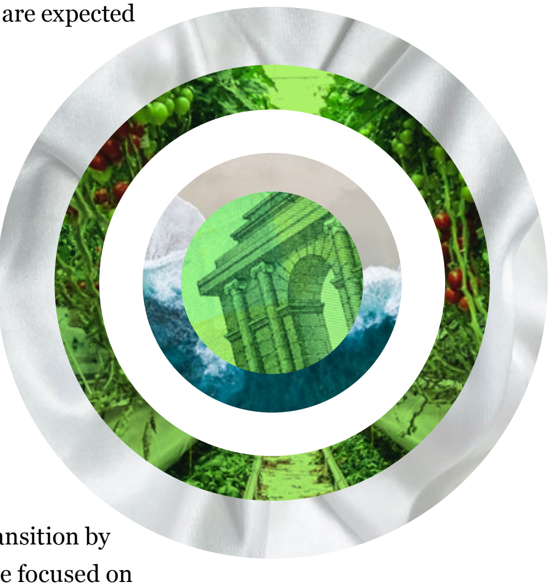
At Ruffer, we've been more positive on the outlook for banks. Attractively priced relative to the wider markets and with governance and balance sheets now much improved, banks in developed markets offer a way to benefit from an environment of recovering economic growth, rising inflation and a rapid adjustment in interest rates. Over the last eighteen months, the sector has performed well as this scenario has unfolded, with strong earnings growth and significant market outperformance in 2021.

There is another (perhaps surprising) element in the current attractiveness of banks – their role in the energy transition.

With the right action plan, it is possible these archetypal villains have an opportunity to become heroes in enabling a Net Zero world. Resolving the climate problem relies on access to capital – for research and development, and for investing in the infrastructure required for a new industrial model. The commercial banking sector's ability to both create and constrain the flow of capital makes it the key arbiter in determining which businesses thrive, survive and fail.

AMBITIOUS AND ACCOUNTABLE

Almost all of the banking stocks in which Ruffer invest are members of the UN Net Zero Banking Alliance.[1] Signatory banks are expected to commit to decarbonisation through credible action plans, short and long-term emission reduction targets and frequent reporting on progress. Crucially, it requires banks not just to assess their own operations, but those of the businesses they finance and invest in.



This initiative ought to spark much needed progress, as we have witnessed first hand when meeting and investing in small, green infrastructure operators, access to traditional avenues of finance has been tricky to come by. The tide, however, is beginning to turn.

Barclays, for example, is aiming to facilitate over £100bn in green financing by 2030, supporting the transition by providing green loans, green bonds and project finance focused on renewables, energy efficiency and sustainable transport. Barclays has also created an accelerator program which seeks to invest £175m of equity capital by 2025 in innovative sustainability-related start-ups. Their investment has helped businesses develop scalable solutions in areas such as ecological concrete, sustainable fashion and vertical farming (which uses 99% less land and 97% less water than traditional farming, with 300x more yield).[2] But social and environmental sustainability requires more than innovation, it requires broad-based change across industries and supply chains. In this regard, Barclays has announced a collaboration with one of the leading energy, water and carbon reduction specialists, to help its corporate clients reduce emissions and pivot to more sustainable practices.

1 UN Environment Programme Finance Initiative
2 Barclays

INVESTING IN OLD AND NEW

It's encouraging to see increasing financial support for innovative new businesses seeking climate solutions, but there are growing calls by climate activists to clamp down on how banks both invest and lend to their existing corporate clients, particularly those with large carbon footprints. The challenge for banks is striking the right balance between supporting start-ups and innovators, whilst not starving incumbents or hard-to-abate sectors of capital. This means intermediating in the gradual transition from current cash flows to more environmentally sustainable technologies and processes with longer-term returns. The infrastructure we so often associate with a greener world: wind turbines, solar panels, battery storage and electric vehicles, are all heavily reliant on a range of industrial

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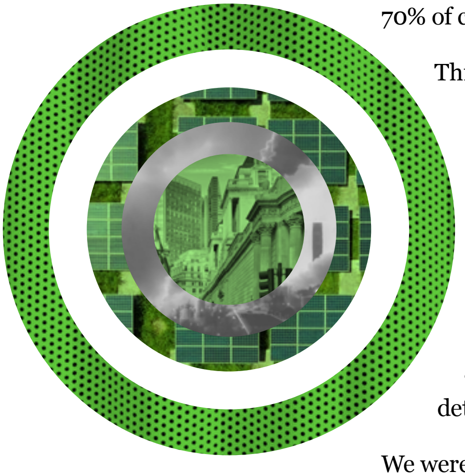
businesses, metals, minerals and processes that are not without environmental controversy. Steel, for example, is of paramount importance in the building industry and typically accounts for over 70% of components used in a wind turbine.[3]



This is one example of the dilemmas facing banks, and the complexity of the debate. At the Barclays Annual General Meeting (AGM), we voted against a shareholder resolution that sought to bind Barclays to phase out the provision of financial services to certain businesses and sectors, which we felt was too blunt. This was a difficult decision and not one we took lightly. Following the AGM, we held a meeting with the Chair of the Board, followed by a subsequent meeting at the end of 2021 to dig into further detail around the company's climate change strategy.

We were encouraged by progress made over the past 12 months and discussed the approach and metrics the company are using to monitor and manage emissions across the range of industries the bank is financing. We stressed the need for absolute emissions

3 National Renewable Energy Laboratory

targets in future with clear interim pathways outlined to ensure the company is on track to achieve Net Zero emissions by 2050. We have had similar direct discussions over the past year with one of Japan's largest international banks, MUFG: a summary of the latest engagement can be found in the stewardship section of this report. Another of our investee companies, NatWest, with whom we engage frequently, recently announced plans to halve their global emissions by 2030. Importantly, they have confirmed this will include keeping the door open to support all industries, whilst cutting ties with businesses who fail to demonstrate either credible plans or progress in the transition to Net Zero.

CHANGE AT EVERY LEVEL

The transition to Net Zero requires widespread changes to public policy, consumer and corporate behaviour. It also depends on significant capital investment to adapt and mitigate the effects of climate change in every industry. Governments and policymakers will play their part, but as they have made clear – much of the heavy lifting will fall to the private sector, with banks acting as a transmission mechanism for change and policy deployment: a route that was particularly effective in response to the pandemic. At Ruffer, we recognise the scale of the challenge ahead and as responsible investors, aim to encourage innovation whilst supporting progress across the spectrum of industries in which we invest, particularly those with large carbon footprints. Through considered investment, engagement and voting, we hope to act as a useful ballast on the journey banks are taking towards a more sustainable world.

HARRY SEVIER

Investment Director

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 27 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