

Responsible Investment Report



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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

FOR LONG STRETCHES OF THE MARKET CYCLE, INVESTORS COULD BE FORGIVEN FOR TAKING A STANDOFFISH APPROACH TO THEIR PORTFOLIOS. DAILY SCRUTINY IS TO BE DISCOURAGED. AFTER ALL, INVESTMENTS ARE FOR THE LONG-TERM AND THE TRAJECTORY OF ASSET PRICES, FOR MOST OF OUR LIFETIMES, HAS BEEN FAVOURABLY UPWARD.

But in periods of regime change, like the one currently underway in markets, investors become altogether more forensic. Each and every portfolio holding demands justification. With renewed scrupulousness, investors must identify the assets they believe will survive in a transformed market environment and in a new world.

And so, responsible investors are trying to find answers to new questions. To what extent will the transition to Net Zero exacerbate inflation? Should companies benefiting from higher oil prices pay a windfall tax on profits? Are we too reliant on too few sources of raw materials? How can we ensure the security of global food supply amidst worsening geopolitical tensions?

To even begin answering these questions, it's essential to get the facts right. That means interrogating the data which informs our analysis of environmental, social and governance (ESG) criteria. In this report's 'engagement in focus' piece, Investment Manager Ben Crawford-Porter reflects on a series of engagements held with a provider of climate risk data.

A confluence of congested supply chains, surging agricultural input costs and heightened geopolitical risk has sharpened the threat of a global food security crisis. Beyond the short term consequences of Russia's war on Ukraine and its impact on commodity prices, we must now contemplate a new future of food production. In this quarter's thought piece, Responsible Investment Manager Peter Lunt and Investment Director Harry Sevier explore the challenges involved with feeding a growing global population. They look at the risks and opportunities in the future of food security, and how these are reflected in Ruffer portfolios. We also include the usual update on our stewardship activities throughout the quarter.

Bubbles have burst with toddler-like abandon this year – technology stocks and cryptocurrencies are the most high-profile victims – but few asset classes have avoided being carried out in the dash for the exits. Whatever happens in financial markets – come rain or shine – we remain fully committed to investing responsibly and the effective stewardship of our clients' assets.

Bubbles have burst with
toddler-like abandon

Stewardship activities in brief

COMPANY

SUMMARY

FUJI ELECTRIC

A meeting to indicate our intent to vote against the re-election of a Board member who we do not consider to be independent and to encourage greater independence of the company's statutory auditors.

GENERAL ELECTRIC

A meeting to reiterate our support for Chief Executive Larry Culp as he spearheads the transition from a conglomerate to separate autonomous businesses. We also discussed the alignment of executive pay with reasonable targets and encouraged an ongoing dialogue with providers of ESG ratings.

GENERAL MOTORS

A meeting to discuss the company's electric vehicle supply chain and to encourage independent supplier audits to ensure there is zero child labour, along with more comprehensive reporting on this subject in the sustainability report.

HENNES AND MAURITZ

A meeting to explain why we voted against the re-election of two Board directors and to discuss whether the Board plans to refresh the Audit Committee. We also enquired about how potential conflicts of interest are managed between the majority family shareholder and other shareholders.

KEYENCE

A call to suggest where the company could improve its corporate governance with respect to board independence and diversity, as well as to provide positive feedback on changes that have been made over the past year.

PORTMEIRION

A call with the Chief Executive Officer to discuss our reservations about management bonuses and shareholder dividends paid in the same year that the company received government support.

SHELL

A call with the new Chief Financial Officer to discuss the company's capital spending plan, including the allocation to Shell's energy transition plan.

**UNIBAIL-RODAMCO
-WESTFIELD**

A virtual meeting to discuss proposals to be voted on at the upcoming annual general meeting. The resolutions covered both the election and re-election of supervisory board members, the newly revised executive remuneration policy, and approvals related to share issuance and buybacks.

ESG DATA PROVIDER

Two workshops to discuss our concerns regarding the methodology behind climate risk data and to work with the data provider to help refine the way their modelling interacts with company specific data, to improve the accuracy of the output report so it is reflective of the underlying climate risk.

Further detail can be found in our Stewardship Activities report, available at ruffer.co.uk/2022-Q2-stewardship

Engagement in focus

CLIMATE RISK DATA

In our [2021 Stewardship Report](#), we highlighted how we are engaging with our third party provider of data on climate risk. This engagement started when we integrated climate risk data into our investment analysis and risk processes, one of the commitments we made in our inaugural [Task Force on Climate-Related Financial Disclosures \(TCFD\) Report](#). Here, we update you on some recent developments in this important engagement.

RUFFER'S APPROACH TO ESG INTEGRATION

One of the key advantages of Ruffer's approach to integrating environmental, social and governance (ESG) factors into our investment process is, whilst we use the top-down data from third party ESG providers to help inform our decisions, we always pair it with the bottom-up analysis by our dedicated team of research and responsible investment analysts. Because we have one investment approach with a concentrated portfolio, our analysts have a deep understanding of each security and the associated ESG risks and opportunities. So we are well placed to evaluate the output of the climate scenario analysis and integrate it into our investment approach.

As detailed in our Stewardship Report, we are comfortable with the climate modelling that informs much of the climate risk data. However, we have had difficulty reconciling how the provider's macro analysis matches with the more granular, company specific detail. Our Research Analysts have a detailed knowledge of the companies they cover, and in some instances the provider's outputs are not aligned with our understanding of the businesses in question. This was especially evident with regards to the way the provider calculates technology opportunities and attributes physical risks. To clarify the provider's methodology in these areas, we corresponded via email and later held two workshops to address the outstanding questions on physical risk and technology opportunities, primarily through case studies on companies our analysts know well, as outlined elsewhere in this report.

PHYSICAL RISK

Our first meeting focused on the physical risk component of the provider's methodology. This pairs a climate model with a proprietary database of the location of companies' assets to forecast how climate change could impact companies, measured in terms of asset damage and business interruption.

A key challenge of this analysis is that companies do not disclose all the information needed for accurate asset location risk mapping. The model aims to fill these gaps by using industry databases, online searches and, in some cases, manual research or sector-based estimations. We used our Currys case study to explore this gap fill approach. We had noticed unrealistically high physical risk outputs for the electrical retailer's business, arising from the assumption that only a small percentage of business revenues are generated by a small warehouse in Ireland at risk of flooding due to climate change. Digging into the data, we realised that the model could only locate less than ten business facilities and was splitting revenue roughly evenly between them. That contradicted our analysts' understanding that Currys operated in over 850 locations. So the model was overstating the potential impact of flooding risk at the Irish location.

We pressed the data provider on two key themes related to this issue. The first was the governance on data quality checks. The provider said, due to the size of the universe of securities, its data quality checks focus on significant top level outliers. While acknowledging the challenge of individual security checks, we suggested a flagging system to highlight where data had been estimated and not checked. The second issue was the data provider's engagement with the underlying companies. We highlighted that a feedback mechanism could help to improve data quality over time. It would also make our engagement with companies more effective by allowing us to complete the loop of identifying a risk, engaging with the company to understand the risk and manage it where needed, and then empowering the

company to work with the ESG data provider to properly reflect their improvement or the existing reality. We believe this would help to unlock value. The data provider acknowledged this and pointed to their existing issuer feedback mechanism for overall ESG ratings as a model for how they could make this work in future.

TECHNOLOGY OPPORTUNITIES

The second meeting focused on the technology opportunities methodology, which relies on assumptions we are not entirely comfortable with. It uses one algorithm to establish the company's existing 'green' revenues (according to the EU taxonomy) and then another to provide a quality adjusted score for the company's green patents. These two inputs are used to calculate the company's expected share of its sector's forecast green revenues.

We outlined two concerns with this. First, because of the sheer quantity of companies the dataset covers, there is limited analyst oversight of the green revenue and patent classification models, which could lead to problems with data quality. Second, the output of the calculation – the size of the potential green revenue opportunity – is set to be equivalent to the cost of a sector's emissions (eg through carbon taxes). We believe this is an imperfect measure, as it does not account for the potential for cross sector applications of any technological solution.

We raised the example of Shell. We had previously flagged that Shell's technology opportunity score had increased by almost four times in a quarter. However, the data provider explained that the quality assurance flags only kick in for significant moves in certain headline metrics. We reviewed the notes accompanying the model update, which suggested the only significant changes over the period were to the physical risk component. So the change in technology opportunities seems to be due to a change in the company's reported data. We said it would be extremely useful to have more detail on the company data that had changed, causing the reassessment. Understanding how data changes impact the assessment of the technology opportunities has implications for our engagement with companies on how they report their climate data to ensure their transition investments are properly reflected.

CLIMATE RISK OUTPUT

The granularity of the output and our ability to get a sense of the underlying drivers of the model has been a key concern throughout our engagements with the data provider. We have continually stressed this point, and the data provider acknowledged that this feedback is consistent across investors. This reflects concerns over the provider's governance processes for the final output report. The provider revealed it performs no direct data quality checks on the report outputs but rather does high level checks on the input data.

As things stand, the climate risk data output takes the form of a static document for both individual companies and portfolios. This document provides high level outputs, but no detail on inputs which could help us identify any areas where the output does not agree with our own analysis or where we suspect problems with data quality. This makes the report much less useful for climate risk analysis. The provider is working on transparency tools to address this issue, and we are arranging a workshop in the third quarter to focus on the first of these tools.

This engagement has two aims. First, we want to fully understand the methodology behind the climate risk data, so we can confirm that those areas where we disagree with the data represent potential sources of opportunity to benefit from our analysts' deeper insight into the company. Second, we want to work with the data provider to help refine how their modelling interacts with company specific data. That should help us improve the accuracy of the output report so that it more accurately reflects the underlying climate risk.

In the meantime, the potential limitations of this nascent field of scenario analysis highlights the importance of combining Ruffer's own analysis and qualitative assessment with such metrics to better integrate climate risk into our investment process.

Mission possible: Securing the future of food

This year, the global population surpassed eight billion people. The extraordinary population growth over the past century has relied upon, and been enabled by, the birth of vast industrial farming systems. Food, on aggregate, is plentiful. Yet today, the dual issues of food security and sustainability loom as large as they have done in the post-industrial era. These megatrends present sources of both investment risk and opportunity.

FINDING FODDER

Modern agriculture, in terms of both practice and scale, has put unprecedented stress on the planet's natural capital; fresh water, arable land and the nutrient cycle. Yield optimisation, a surging demand for meat and an acceleration of per capita consumption has had a notable impact on farmland across the globe. Climate change is likely to exacerbate these problems further, so too will geopolitical tension, through disruptions to the supply of soft commodities or natural gas.

With the UN forecasting a **23% increase in population size by 2050**, significant innovation is required to increase the quantity and quality of food, through more efficient or alternative production methods.

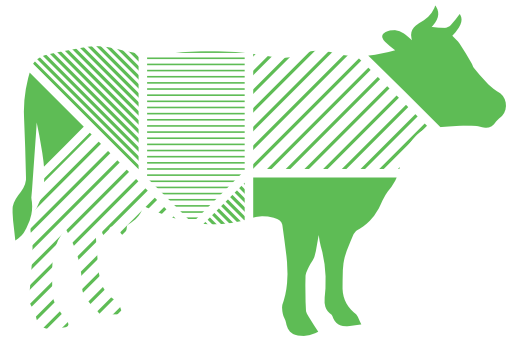
In a 2017 paper published in **Global Food Security**, the authors suggest livestock consume a third of global cereal production and use about 40% of global arable land. This implies around a billion tonnes of cereal is diverted to animal feed. The livestock industry is also responsible for **14.5% of all anthropogenic GHG emissions**. It is unsurprising then, that investor and government scrutiny on the traditional agricultural sector and farming practices is increasing. Together, this makes current agricultural systems ripe for disruption.

THE MOTHER OF INVENTION

Is society ready to consume laboratory 'grown' food?

Or, as the think tank **RethinkX** refers to it, the product of precision fermentation (they define this as “a process that allows us to program micro-organisms to produce almost any complex organic molecule”). Imagine a genetically engineered yeast cell, or collection of cells, which under the right conditions of temperature and pressure, create an alternative (animal-free) T-bone 'steak'. **RethinkX** argue this disruption to agricultural systems, in particular beef, will be up to 100 times more land efficient, 10-25 times more feedstock efficient, 20 times more time efficient, and ten times more water efficient.

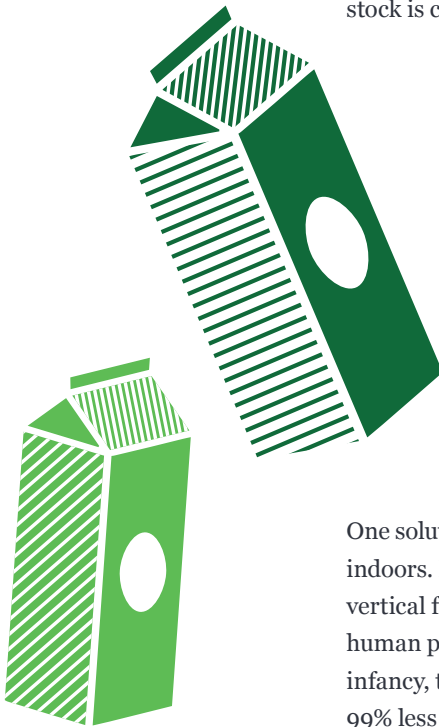
Demand for alternative meat and dairy products will continue to accelerate. The industry has captured the attention of investors and incumbent food manufacturers alike. Opportunities are many and varied, but so too, are the risks. We have watched innovative companies like Oatly Group AB (oat-based alternative to dairy products) and Beyond Meat Inc (plant-based meat substitute) list via initial public offering to great fanfare and stretched valuations. **Oatly has fallen by 85%** since its listing and **Beyond Meat has suffered a 45% decline**. Our caution, if not scepticism, has been thus far justified.



At the same time, highly cash generative incumbents in the food manufacturing sector trade on lower valuations. They have the deepest pockets to invest, an established route to market and arguably the most at stake in the face of innovation. This is where we have identified the most attractive opportunities.

One example is Ruffer's investment in Danone, the global consumer goods company best known for its dairy products under brand names such as Activia and Alpro. The business is amid a pivotal transformation and has become the first listed company in France to adopt the **Entreprise à Mission** status. This initiative requires companies to pursue a purpose and objectives which explicitly benefit society and the environment.

Entreprise à Mission status involves a variety of initiatives, ranging from regenerative agriculture (supporting ecosystems and biodiversity), investing in, and promoting the circular economy through advanced recycling, as well as developing a more sustainable product offering. Danone has invested heavily in dairy alternatives and is now the world leader in plant-based product sales. In the realm of food manufacturing, there's no doubting the 'alternatives' garner the most intrigue amongst investors – and their innovation is to be applauded. But for value sensitive investors, avoiding getting caught up in the excitement surrounding a particular product or stock is crucial to investing responsibly.



LOOKING UP

The effects of climate change on food production are becoming clear. Take California's \$6 billion almond industry. Changing rainfall patterns and decades of unsustainable groundwater extraction have had a deleterious impact on the water supply. Combined with so-called ocean 'dead zones' (hypoxic areas which affect the lifecycle of fish and other aquatic species), it has become imperative to rethink farming practices in the region to establish non-damaging and sustainable almond production.

One solution being explored around the world is to move farming indoors. Farming in a closed system, making use of fast-developing vertical farming technologies, could be essential to feeding the human population in the coming decades. Although still in its infancy, the prospects for vertical farming are promising; it uses 99% less land and 97% less water than traditional farming, **with up to 300x the yield.**

In recent years, we have invested in several food retailers for whom food sustainability is incorporated into their business model. Ocado, for example, gave us exposure to a best-in-class advanced robotic warehouse solution as well as a number of ambitious vertical farming initiatives.

Marks & Spencer, another of our portfolio companies, has taken this one step further and begun to dedicate in-store floor space to vertical salad farms. They have also committed to increase the number of products sold without plastic packaging and are heavily promoting their own Plant Kitchen range of alternative proteins.

TACKLING WASTE

Arguably the most important factor in shaping the future of food has little to do with innovation in production or manufacturing. Rather, it is simply reducing the amount of food which goes to waste. It is estimated that **a third of all food produced is wasted**, either never leaving the farm, spoiled or thrown away. As this food waste breaks down it produces large quantities of methane. Food waste alone is thought to be responsible for between **6-8% of all global greenhouse gas emissions worldwide**: more than any country in the world outside of the US and China. This is all the more significant given methane has a global warming potential that is up to **86 times greater than carbon dioxide**.

As investors in the UK's largest supermarket chain, Tesco, we are encouraged by their commitment to addressing the issue – **with a goal to halve food waste by 2030**. The company's approach is multi-faceted; they are investing in developing technologies to reduce waste from stock keeping, for example, as well as expanding existing schemes which ensure edible food is distributed to those in need before being sent to landfill.

A SECURE AND SUSTAINABLE FUTURE

The war on Ukraine has dealt a blow to the quest for food sustainability. The humanitarian crisis has been accompanied by an enormous supply shock to two of the world's leading grain producers. This has catalysed already rising food price inflation with the effect of pushing many households to (or over) the verge of food poverty. The security and sustainability of food has never felt so pressing. As responsible investors, our focus is on encouraging the companies in which we invest to move in the right direction. We will continue to engage with them, to champion innovation and to ensure the sustainability of food production, retail and consumption is given the credence it requires.

HARRY SEVIER

Investment Director

PETER LUNT

Responsible Investment Manager

About Ruffer

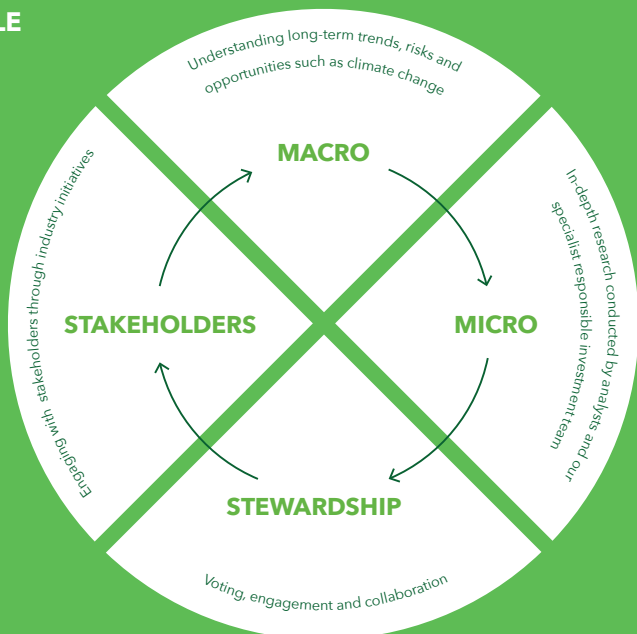
OUR AIM IS TO DELIVER GOOD POSITIVE RETURNS – WHATEVER HAPPENS IN FINANCIAL MARKETS.

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





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