Stewardship activities in Q2 2020

ArcelorMittal

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

Climate Action 100+ group call with Brian Aranha, Executive Vice President; Nicola Davidson, Vice President Corporate Communications and Corporate Responsibility; Alan Knight, General Manager Corporate Responsibility and Sustainability; Annie Heaton, Head of Sustainability Reporting, and other senior colleagues

Issues: Environmental, governance – climate change, remuneration, analysis of trade association memberships

The discussion focused on the priorities for the Climate Action 100+ initiative in 2020, including companies setting net-zero targets for 2050 and linking the achievement of these targets to executive remuneration. This built on the numerous conversations in 2019 around the setting of a 2030 target for European operations. We were encouraged by both the ambition to be net-zero in Europe by 2050 and the announcement in December 2019 of the target to reduce carbon emissions by 30% by 2030 in the company's European operations.[1] While these commitments are significant, given the global nature of the company's operations we stressed the importance of setting a target for 2030 and a longer term ambition for 2050 for the company as a whole. This will be crucial to fully align the company's strategy with the goals of the Paris Agreement. We discussed the process the company is adopting to determine the level of these commitments, what lessons it could learn from the

1 ArcelorMittal 'Climate Action in Europe' report, p1

European commitments set in 2019 and what difficulties the company is facing. In particular, we spoke about different options for setting targets and ambitions in regions where the policy environment, with regards to climate change, is not clear. The company announced that it will set a global 2030 target and 2050 ambition by the end of 2020, when the company releases its second Climate Action report, and we are encouraged by this commitment.

We also discussed shorter-term targets and the additional steps we would like to see the company take once these global targets have been set, including meaningfully linking the achievement of the targets to executive remuneration. We emphasised that there a number of ways this could be achieved. On the disclosure of its memberships of trade associations, we asked for an update on the feedback we provided the company on the draft report. We were pleased to hear that a number of these points have been included in the final report, which was released a few days after the call.

Due to the COVID-19 pandemic, ArcelorMittal changed the format of its annual general meeting (AGM) and it was not possible for investors to participate. Therefore, instead of making a statement at the meeting, the three lead investors of the Climate Action 100+ working group submitted questions to the company on setting a 2030 target and a 2050 ambition for the company as a whole, linking these targets to executive remuneration and the analysis of its trade association memberships. The company published answers to these on its website.

AVACTA is a biotherapeutics and diagnostic company based in the United Kingdom

Conference call with Alastair Smith, CEO, and Tony Gardiner, CFO

Issues: Governance – strategy and capital structure

Having engaged with the company on numerous topics over the last few years, in Q2 our discussions focused on the company's capital structure. The company has been developing a rapid diagnostic antigen test for COVID-19 in response to the pandemic. We encouraged the company to make use of the opportunity to raise sufficient funds to enable it to pursue its long-term objectives in both the biotherapeutics and diagnostic businesses and unlock value for shareholders.

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

Conference call with Peter Truscott, CEO; Tom Nicholson, COO; Duncan Cooper, Group Finance Director; and Jenny Matthews, Head of Investor Relations

Issues: Environmental, social – climate change, company strategy and stakeholder management in response to the COVID-19 pandemic

We spoke about the company's response to the COVID-19 pandemic, reiterating our view that companies need to act in a responsible way with regards to all stakeholders, including employees, customers and their supply chains. The CEO talked through specific examples from the company's action plan which illustrated its efforts in taking responsibility, especially in relation to its employees' wellbeing such as engaging through a staff survey and keeping employees on full pay and benefits. Each member of the board also made a personal contribution of 20% of their salaries to various community charities. We discussed the challenges of an ongoing consultation into reducing the company's workforce, which the board had taken the decision to delay due to the COVID-19 lockdown.

We also discussed industry trends, such as the shift to sustainable sourcing and 'green' housing and upcoming regulations such as the UK Future Homes Standard. We explained Ruffer's approach to climate change and why we believe it is important for companies to be measuring their greenhouse gas emissions and setting targets in line with the goals of the Paris Agreement. Crest Nicholson has not yet set emissions reduction targets and we asked the company what the key challenges to this have been and how it is working to overcome these. The company explained how, following the management change in 2019, the board has established a sustainability committee, chaired by the CEO, to look into these issues, and remains committed to setting greenhouse gas emissions reduction targets within the next two years. We are continuing to engage with the company on these matters.

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

Group Climate Action 100+ conference call with Eldar Sætre, CEO, and other senior colleagues

Issues: Environmental – climate change

We built on the discussion with Lars Christian Bacher, CFO of Equinor, earlier in the year focussing on the company's revised climate roadmap which was released in February 2020. In particular, we discussed how the company will meet the ambitions to reach carbon neutral global operations by 2030 and to reduce the net carbon intensity of energy produced by at least 50% by 2050.[2] We are encouraged both by the commitments the company has made and the comprehensiveness of the analysis which underpins these. Even in the midst of the COVID-19 pandemic, it was promising that the CEO was reiterating the commitment to transitioning to a broader energy company and that he believes this will make the company more resilient in the future. We discussed the developments in offshore wind and how projects around the world are assessed to ensure the company's strategy is aligned with the goals of the Paris Agreement.

2 Equinor 'Climate Roadmap 2020', p13

ExxonMobil

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

Conference call with Stephen Littleton, Corporate Secretary and VP Investor Relations, and Sherry Englande, Shareholder Relations Manager

Issues: Environmental, social, governance – climate change, stakeholder management in response to the COVID-19 pandemic and board composition

We spoke with the new Corporate Secretary about the discussions we have had with the company over the past few years. We stressed that we would like ExxonMobil to further align its strategy with the goals of the Paris Agreement and accept responsibility for its scope 3 emissions. We discussed the progress the European oil and gas companies have made in recent months, and suggested that the company join the Energy Transition Commission. As one of the largest oil and gas companies in the world, we emphasised that we would like to see ExxonMobil helping to address the issues facing the sector. Due to the limited progress since the 2019 AGM, we decided again to vote against the re-election of all non-executive directors because we do not think they have been representing the best interests of shareholders owing to the slow progress of the engagement with the Climate Action 100+ initiative.

We also discussed the COVID-19 pandemic and the impacts on the company and its workforce. We were encouraged about some of the measures the company has taken, including producing hand sanitizer and supporting its employees.

JPMORGAN CHASE & CO.

JPMORGAN CHASE is a global financial services firm

Conference call with Jason R. Scott, Head of Investor Relations, and other colleagues

Issues: **Environmental, governance – climate change, succession planning, remuneration**

We engaged with the company ahead of its 2020 AGM to discuss the shareholder resolution requesting the company produces a report specifying 'if and how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreement's goal of maintaining global temperature rise below 1.5 degrees Celsius'. We explained to the company why we think this information is important to investors and, therefore, why we were likely to support the resolution. We gave the company to opportunity to explain its stance, and discussed the lack of clear definitions in the financial sector on aligning lending activities with the Paris Agreement. While we accept this is a problem, we think that there is momentum pushing these discussions forward and that if a commitment can be reached under a high-level framework, it will accelerate the agreement of these definitions. In addition, we stressed that as a leading bank around the world, JPMorgan Chase should be striving to find solutions to these problems and we would like to see a greater commitment from the company. Ruffer supported the shareholder resolution at the 2020 AGM, which was narrowly defeated.

We also discussed the succession plans for members of the board as several have served on the board for a significant length of time. In particular, we focussed on Lee Raymond, who has been on the board for 19 years. We were encouraged that the company committed to appointing a new lead independent director by the end of summer 2020. On the topic of remuneration, we discussed the 30% vote against management at the 2019 AGM and the measures taken since.

Landsec

LAND SECURITIES is a property development and investment company based in the United Kingdom

Conference call with Mark Allan, CEO

Issues: Social, governance – company strategy and stakeholder management in response to the COVID-19 pandemic and CEO transition

The call was initiated by Land Securities to engage with shareholders following the new CEO taking office in April 2020. The discussions focused mainly on the company's strategy going forward and social issues in the context of the COVID-19 pandemic. We discussed the new CEO's management experience and recognised some of the directions that Land Securities could take. The CEO explained his thinking behind some of the ideas for a new medium to long-term strategy and the processes and analysis that will be used to determine this strategy. We welcomed the potential refresh in capital allocation and discussed shareholder returns policies in the medium to long-term. We also discussed the CEO transition process and recognised the various initiatives adopted to ensure continuous leadership at the executive and board level while also managing the pandemic.

In terms of the company's response to the COVID-19 pandemic, we reiterated our view that it is important companies act in a responsible way regarding their stakeholders. The CEO gave us several specific examples which illustrated the company's efforts in taking responsibility especially in relation to its employees' financial wellbeing, including keeping them on full pay. The CEO explained that they can sustain this level of cost and would want to continue these efforts going forward unless the situation changes drastically. We also learnt of other steps taken in relation to its customers, supply chain, wider community and the government and we welcomed the company's positive efforts.

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

Conference call with Takao Okabe, Senior Manager; Mitsuharu Kiwada, Senior General Manager, and other colleagues

Issues: Social, governance – labour practices, data security, board structure and independence of directors

We spoke with the company ahead of its 2020 AGM to discuss measures taken over the last four years to improve its labour practices. We were encouraged by the steps the company has taken, and think this progress is reflected in the sharp reduction in the number of employees working significant amounts of overtime and the results of recent staff surveys. On the topic of data security, we discussed the data breach that occurred in 2019 focussing on the measures put in place both before and after this event given the sophistication of the attack.

While we appreciate the recent changes to the board structure, including that sub-committees are now chaired by independent directors, we still have concerns over Mr Oyamada. We do not believe that Mr Oyamada is independent given he is a senior advisor to MUFG Bank which holds shares in Mitsubishi Electric. We communicated these concerns to the company and, as we did in 2019, we voted against his re-election.

ROHM is a Japanese electronics manufacturer

Conference call with Kohei Nozato, General Manager Investor Relations

Issues: Governance – board composition and structure, remuneration

We engaged with the company on the experience of the board members, particularly the independent directors who have limited industry experience. We expressed our concern over this and that few directors are truly independent. With regards to the structure of the board, while it is encouraging that the board has nomination and compensation committees, these committees are not chaired by independent directors. We stressed the importance to us of having independent chairs of sub-committees to ensure robust oversight of management. Following the introduction of a restricted stock plan, we asked for additional disclosure on remuneration especially the split between fixed and performance-based compensation for management and the criteria used to determine variable compensation.

TOKIO MARINE

TOKIO MARINE is a Japanese insurance company

Conference call with Kunihiko Kobayashi, Investor Relations

Issues: Governance – independence of directors

We engaged over the appointment of a director who we do not consider independent given the cross-shareholdings of the company as Mr Katanozaka is President and CEO of ANA Holdings. We expressed our disappointment at his appointment, especially as overall we felt corporate governance had been improving at the company. We asked for the criteria used by the nominations committee in the selection process. We voted against the appointment of Mr Katanozaka at the 2020 AGM and communicated our rationale to the company.

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

Conference call with Lowell Singer, Head of Investor Relations and Tamara Munsey, Vice President – Investor Relations

Issues: Social, governance – employee wellbeing, remuneration

The meeting focused on Disney's response to the COVID-19 pandemic and the recent unrest in the United States. We discussed some of the actions that the company has taken in relation to its various stakeholders and the wider community. The Head of Investor Relations gave specific examples including a new initiative within the company to encourage open and safe discussions around race. In terms of ensuring employee well-being during the COVID-19 pandemic, we discussed the steps Disney has taken including picking up some employee health benefits through its Inspire programme, conducting appropriate discussions with union leadership, paying employees for a number of weeks before the start of furlough and working with the government to ensure that employees receive furlough benefits. We have previously communicated with the company that it is important, in our view, that Disney's management team share the burden with the employees who have been financially impacted by the pandemic. We welcomed the base pay cuts the CEO and other Disney executives have taken and discussed the potential pay-outs this year for the long-term incentive plan (LTIP). The Head of Investor Relations recognised our concerns over the appropriate total compensation package and communicated that they will take into consideration shareholder interests when the board sets the LTIP pay-outs. In terms of dividends, we reiterated that we felt that the dividend cut was appropriate at this time, and we support the decision.

We also discussed the board engagement on social responsibility. We recognised Disney's initial efforts in benchmarking itself against its peers and its acknowledgment of the need to catch up to peers and investor expectations. We expressed our interest to understand its next steps and how the new and more targeted corporate social responsibility initiatives will look at Disney.

TESCO is the biggest supermarket in the UK

Conference call with John Allan, Chair of the Board; Steve Golsby, Non-executive director and Chair of the Remuneration Committee; and other colleagues

Issue: Governance – remuneration

Ahead of the 2020 AGM, we engaged with members of the board to understand the rationale for changing the peer group used to determine management remuneration. We expressed our concern for changing the criteria of the remuneration policy, which had been approved by shareholders in 2018, and questioned why the decision was made to do it at this time. In addition, we wanted to understand the process that the board adopted in making this decision. We discussed in detail the distorting effects Ocado was having on the peer group, the analysis the board had done on different options and how the decision was taken by the board as a whole.

When determining whether to support a remuneration policy or report, we assess a number of factors including whether the quantum is reasonable given the performance of management. In this case, in recent years the company has seen consistent improvements in cashflow generation, operating profit and its customer brand perception. In addition, the company has significantly reduced its debt. And therefore, while we expressed our concern over the retrospective changes to the peer group, we decided on balance to support the remuneration report. We stressed to members of the board that we hope they will constructively reach out to shareholders ahead of revising the remuneration policy next year.

Contact us

FRANZISKA JAHN-MADELL
Director, Responsible Investment

fjahn-madell@ruffer.co.uk
+44 (0)20 7963 8200

ALEXIA PALACIOS
Analyst, Responsible Investment

apalacios@ruffer.co.uk
+44 (0)20 7963 8228

RUFFER.CO.UK