

# 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 need to analyse environmental, social and governance (ESG) issues. They represent both sources of value and investment risks. Incorporating these considerations into our investment approach forms 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 as part of our investment process.

### ENGAGEMENT

Directly engaging with companies is a part of our investment process.

### VOTING

Equity investing comes with rights and responsibilities.

We take this seriously.

We are signatories and supporters of



# Overview of the quarter

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**NOBODY SAID IT WAS EASY. WHEN CHRIS MARTIN PENNED THE LYRICS OF ‘THE SCIENTIST’, HE PROBABLY DIDN’T HAVE ESG IN MIND.** Not least because the first mainstream usage of the initials was in the United Nations report ‘Who Cares Wins’ – which was published in 2004, two years after the release of Coldplay’s hit.

Whilst responsible investing’s origins go back further than that, the whole area is still nascent, rapidly evolving and often ill defined. As a result, investors encounter a broad range of difficulties and complexities, and we believe that calls for a pragmatic and adaptive approach.

In this quarter’s Responsible Investment Report, we highlight one area where engagement is far from straightforward: commodities. Different ways of investing in commodities require different approaches to engagement. But we have managed to find ways – sometimes fairly oblique – to increase the ESG pressures on the commodity producers. These pressures need to be effective but measured: after all, many of these commodities – such as copper and lithium – will be vital if we are to transition successfully away from carbon-intensive fossil fuels.

Of course, it’s not just investors who find it hard to cope with the demands of ESG. In our engagements in focus section this quarter, we outline our recent discussions with Perseus Mining, which has been frustrated by the number of different environmental reporting standards it’s asked to meet. Whilst we understand these frustrations given its resource constraints, we were satisfied with the solution proposed. Our other in-focus engagements are with British American Tobacco and ArcelorMittal.



**THE**

**COMPLEXITIES**

**OF**

**COMMODITY**

**ENGAGEMENT**

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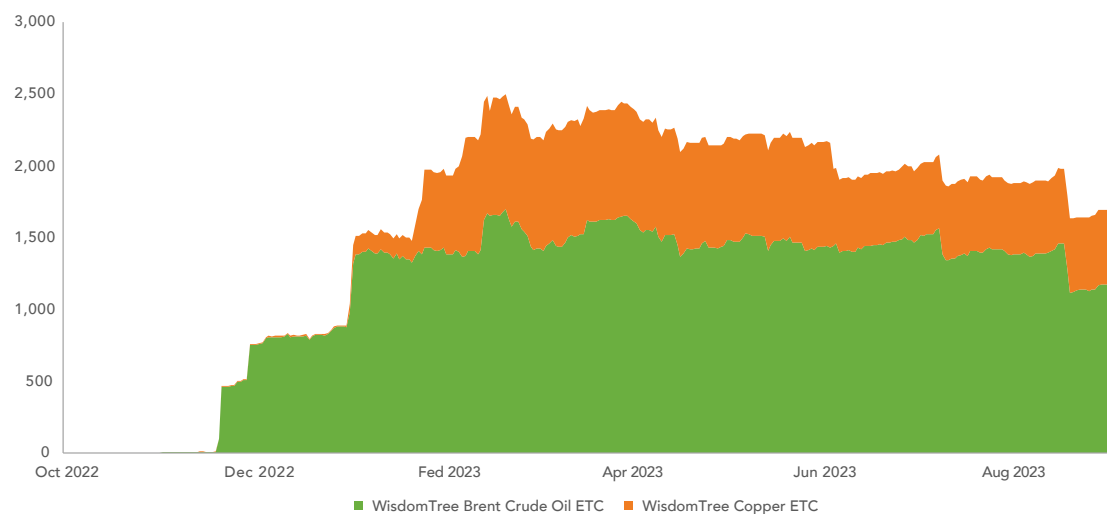
At Ruffer, we seek to engage with the companies we invest in, both to foster good corporate ESG practices and to help identify areas of potential risk or reward for our portfolio. Given finite resources, we focus these efforts where we believe they can have the greatest impact. But some asset classes and some types of security pose particular challenges, calling for a more creative approach to engagement. Here's a case in point.

In late 2022 and early 2023, we began to build exposure to oil and copper. The investment case was clear. We expected both commodities to benefit from China's re-opening after three years of covid-related lockdowns. In addition, the supply of oil was constrained in the near term, while copper is a key material for the energy transition, a longer-term structural theme.

For both investments, we chose to use an exchange-traded commodity (ETC), a security that derives its value from the price of the underlying commodity. It gives investors exposure to the movements in the price of the commodity without having to buy, sell or store it or to take equity risk through holding shares in oil producers or copper miners – something we wanted to avoid given our cautious view on the equity market. The ETCs we opted for were constructed by WisdomTree, an asset manager offering exchange-traded fund and commodity products. This was not Ruffer's first foray into exchange-traded products – we have long been invested

in gold exchange-traded funds (ETFs), backed by physical gold bullion, as an inflation protection asset.

**FIGURE 1**  
**RUFFER'S COMMODITY HOLDINGS (£ MILLIONS)**



Source: Ruffer holdings

In contrast to our equity holdings, where we can engage with companies and exercise our voting rights, we have limited scope for engagement with respect to derivative financial instruments, especially when they are linked to an underlying commodity price which is determined by supply and demand forces in the market.

But, within those limits, we do what we can to engage. For example, we met with WisdomTree this quarter to discuss how its ETCs are structured and how ESG factors are considered within this process. The meeting was focused on gold ETFs and copper ETCs, as well as instruments derived from critical raw materials such as lithium and cobalt, as investor appetite for exposure to the energy transition grows.

Of course, commodities and, by extension, commodity miners are often considered problematic from an ESG perspective. Environmental concerns such as resource depletion, biodiversity loss, pollution and water scarcity can arise due to the extraction process. On the social front, human rights violations such as unsafe working conditions and child labour are common in some commodity supply chains and, given the geographical location of some mines, mining activities can displace indigenous communities. However, what could be described as the narrow interpretation of ESG belies the bigger picture: these commodities are critical ingredients to a sustainable, lower carbon future which helps the overall economic system as well as the environment.

Unfortunately, it is slightly more complicated when considering financial instruments that derive their value from a commodity price. WisdomTree has limited (if any) control over the ESG practices of companies involved in the extraction or production of the commodities that its products are structured upon. At present, nor do markets.

It is at this juncture that gold – often regarded as a store of value – diverges from other commodities. WisdomTree's gold products are usually physically backed: it holds gold bullion in a vault on behalf of its investors, and the value of the ETF/ETC is tied to the value of the gold in the vault. So some gold ETF/ETC providers are able to set stipulations or standards for the gold miners that extract or produce the gold they hold. Indeed, WisdomTree is working on a sustainable gold product that would require producers to set science-based emissions reduction targets, for example, and to meet minimum standards for human labour rights. Fund providers are also increasingly focusing on the origin and value chain of the gold they store, promoting full transparency. If the industry continues to evolve in this direction, such 'green' gold ETFs could come to command a premium over standard products.

WisdomTree is working on a sustainable gold product that would require producers to set science-based emissions reduction targets, for example, and to meet minimum standards for human labour rights.

Unlike gold, critical raw materials such as copper are required for the energy transition, to build electric batteries, solar panels and other emerging technologies. It wouldn't make sense to store them in a vault – especially when there are legitimate concerns over the mismatch between supply and future demand if we are to meet the climate goals set out by the Paris Agreement. So, instead of being backed by the physical commodity, products linked to these raw materials are structured as futures contracts – a contract based on the future price of the commodity. These prices are set by supply and demand in the market, rather than through ethical or sustainable product differentiation.

As a result, asset managers are left with few options for promoting best practices. That said, WisdomTree is in a position to convey the wants of its investors to commodity exchanges, like the London Metals Exchange. We therefore intend to keep communicating with WisdomTree as the industry evolves and develops processes to integrate ESG factors into these financial instruments.

# Stewardship activities in brief

COMPANY	SUMMARY
<b>ARCELORMITTAL</b>	As part of a long-standing engagement dialogue, a meeting to hear an update on the company's decarbonisation efforts. We discussed consolidation within the industry, as well as how ArcelorMittal might better communicate the value of its capital expenditure plans to investors. We also touched on the company's joint venture in India, and how operations in the region will fit into its decarbonisation strategy.
<b>BAKKAVOR GROUP</b>	A meeting focused on the company's capital allocation plans. In particular, we discussed the relative merits of paying a dividend to shareholders versus reducing Bakkavor's debt burden or investing in the company.
<b>BRITISH AMERICAN TOBACCO (BAT)</b>	A meeting to discuss a range of ESG-related issues, including product waste, biodiversity, public health, human labour rights and risk management. We spoke at length about the company's product lines and its strategy to convert traditional cigarette consumers to lower-risk products, such as heated tobacco, vapour or chewable tobacco. These products also raise the question of circularity and recycling, which BAT acknowledged was a challenge with its single-use products. We asked about human and labour rights with respect to activities in Malawi, where MSCI ESG have BAT on a UN Global Compact watchlist for child labour. BAT confirmed that it has policies and procedures related to identifying and eliminating child labour.
<b>CLIMATE ACTION 100+ WORKING GROUP</b>	As supporting investors in the Climate Action 100+ Working Group for Shell, we joined a call with the lead investors and other supporting investors to reflect on the company's recent Capital Markets Day announcements and discuss how the collaborative group of investors could engage more productively with the company. We also considered the potential for policy-oriented engagement.
<b>EPWIN GROUP</b>	A site visit to Telford by a wider Ruffer team to view the factory where Epwin manufactures energy efficient products using partially recycled plastics. The company demonstrated how the process and the inputs used keep scrap rates and emissions low.

COMPANY	SUMMARY
<b>ESSENTRA</b>	A meeting to assess how Essentra is considering capital allocation, specifically in terms of potential mergers and acquisitions. We discussed how the company can implement its acquisition strategy if the current economic environment continues or worsens, as well as whether a continuation of its current buyback would generate more value in the long term for shareholders.
<b>EXXON MOBIL</b>	A general discussion with members of the investor relations team, the first since we have meaningfully reinvested in the company. While the meeting covered Exxon's approach to ESG at a very high level, we intend to build on this dialogue and engage on more specific issues in future meetings.  We had a follow up meeting later in the quarter to discuss the company's plans for scaling up its carbon capture projects, to get more clarity on how Exxon addressed a recent shareholder resolution related to methane emissions measurements and to understand the skills matrix of the board of directors. We also spoke about the company's recent Global Outlook report, in the context of resilience to stranded asset risk.
<b>KINROSS GOLD</b>	A meeting with investor relations to discuss how decarbonisation efforts are part of the company's capital allocation plan and how biodiversity considerations are incorporated in its environmental strategy. We were pleased to hear that each mine has a biodiversity management plan in place. We also discussed health and safety measures that have recently been strengthened, and touched on the just transition.
<b>ON THE BEACH</b>	A meeting initiated by On the Beach to seek our input on its current remuneration policy. We encouraged the company to think about setting more stretching financial targets that would be compensated through a greater share-based payment. We then held a follow up call with management to convey our opinions to them directly.

## COMPANY

## SUMMARY

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### PERSEUS MINING

Following a letter we sent to the company as a part of the CDP Non-Disclosure Campaign, a meeting to discuss our request for Perseus Mining to respond to the CDP's climate change questionnaire. We also briefly discussed how the company is considering renewable energy solutions in its new mining projects. After our meeting, the company committed to submitting an unscored response and will look to include the CDP questionnaire in its reporting cycle next year.

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### SWIRE PACIFIC

A meeting to fully understand the strategic rationale and pricing of the significant related-party transaction the company plans to undertake. We wanted to ensure that the transaction – which involves the sale of a subsidiary (whose management will then be outsourced back to the company) to the controlling shareholder – is in the best interests of minority shareholders such as ourselves.

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### WATCHES OF SWITZERLAND

Given Rolex's acquisition of Bucherer, a meeting to discuss the company's future plans for capital allocation. We discussed whether acquisition activity or share buybacks would lead the market to infer that Rolex was serious in its commitment to Watches of Switzerland as a partner and the likelihood of either route being followed.

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### WISDOMTREE

A meeting as part of an ongoing discussion about how to incorporate ESG considerations into the structuring of WisdomTree's commodity-based products. We spoke about the complexities of linking environmental or social issues of certain mining companies to the price of the commodities they mine, such as lithium or cobalt. WisdomTree is working on developing a product which meets certain environmental and social criteria by ensuring the underlying metal or mineral is certified against a responsible mining standard (or its equivalent). This may meet the suitability criteria for inclusion in an Article 8 strategy.

# Engagements in focus

## ARCELORMITTAL

ArcelorMittal has been a long-term holding for Ruffer, and we have engaged extensively with the company, both individually and with the Climate Action 100+ initiative as a co-lead investor. Over the years, we have seen tremendous progress in its decarbonisation journey, yet we have continued to push the company for more ambitious steps. Following conversations earlier this year, we have dived deeper into the company’s decarbonisation strategy, meeting the company individually and through the Climate Action 100+ working group.

ArcelorMittal has earmarked specific decarbonisation projects across its operations to the transition to Net Zero, having put forward a \$10 billion capital allocation plan in 2021. It also has targets to reduce carbon emissions by 35% in Europe and by 25% globally before 2030 and to reach Net Zero across its global operations by 2050. Meeting these targets will require the company to focus on decarbonising assets in Europe, whilst focusing on growth in emerging markets. The company is currently negotiating with European governments to receive grants, which could cover half of the investment. So far, it has received funding support from Spain, Belgium and France and is awaiting Germany’s decision.

We discussed ArcelorMittal’s joint venture with Nippon Steel in India, an asset which will be more carbon intensive. We asked the company to provide more comprehensive disclosure on the

emissions associated with the plant in India when it publishes its updated Climate Action Report in early 2024.

As an industry leader, ArcelorMittal has been a member of the expert advisory group for the development of SBTi methodology for the steel industry and has contributed significant time and effort to this endeavour. The company has confirmed that, although the business is complex because of both geography and technology, it is confident it will meet its targets. Given the nature of the steel industry, considered a hard-to-abate sector, the 2030 emission reductions are weighted towards the second half of this decade.

Lastly, we touched on the sustainability expertise of directors on the board. We have been assured that, since appointing a head of the sustainability committee who also serves as a board director, the company has internally reassessed its approach to target setting through SBTi lenses. We will continue to engage with the company in the new year once its updated climate report has been published.

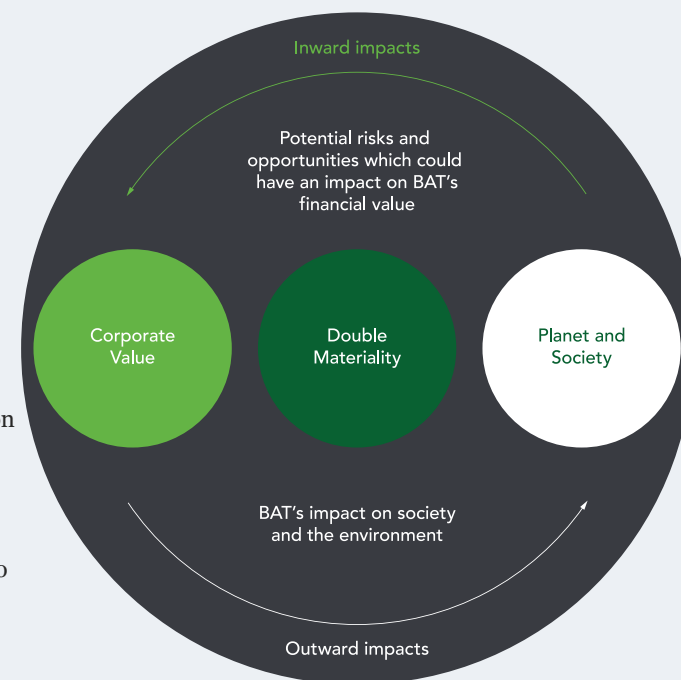
## BRITISH AMERICAN TOBACCO (BAT)

Following an initial discussion on ESG issues with BAT’s management, Ruffer was invited to participate in a refresh of its double materiality assessment. BAT has conducted materiality assessments since 2007 and undertook its first double materiality assessment in 2022. The concept of double materiality hinges on the idea that materiality is a two-way street: not only can climate, or other ESG-related, issues be material to the company, but the company can also have a significant impact on those same issues. BAT contends that this approach provides greater insight, focus and granularity on the sustainability and ESG matters which are significant in terms of BAT’s impact on society and the environment as well as the potential risks and opportunities which could affect BAT’s financial value.

It is a time of transition for BAT and the tobacco industry more broadly. As consumers switch away from traditional cigarettes towards less harmful alternatives, BAT and its peers must re-invent their business model or potentially suffer declining revenue to the point where investors will not receive adequate return on investment. This requires investment in next generation products to generate revenue lost from traditional categories. Technology and miniaturisation have allowed the emergence of lower risk alternatives. Heated (rather than burning) tobacco, smokeless tobacco, vape, liquid nicotine and chewable tobacco are all substitutes for cigarettes and rely on an array of plastics, batteries and semiconductors. With the rise of single use or reusable next generation devices, tobacco

companies now face a similar, but differing, exposure to ESG risk.

The 2022 assessment identified harm reduction, circular economy, sustainability and governance as the four most pressing elements. These elements remain important in 2023. In our discussion, we raised the regulatory risk from emerging science related to the harm caused by these products and from evidence that underage people are accessing addictive products. We also discussed circularity and the need to convince consumers to choose reusable products rather than single use, disposable devices, which are hard to recycle and generally end in landfill. The meeting provided a valuable opportunity for us to answer BAT’s question of where we think the biggest risks facing the company lie, so that it can seek to address them.



Source: bat.com/materiality



## PERSEUS MINING

For the third year running, we have taken part in CDP’s non-disclosure campaign, an initiative to selectively engage with companies in high impact sectors that have consistently failed to respond to CDP’s information requests. We have been a member of CDP for several years and are staunch supporters of the initiative’s goal of providing a comprehensive source of corporate environmental data that is aligned with key environmental disclosure standards. As in previous years, we focused our efforts on gold companies, particularly those CDP had deemed critical from a climate perspective, and we were selected to lead the engagement with Perseus Mining. In earlier campaigns, we could opt to co-sign letters to other companies we were invested in. This year, however, the signatories of all investors involved in the campaign were added to every letter.

We sent a letter drafted by CDP to Perseus Mining’s CEO, explaining the importance of reliable and complete environmental data, especially for investors who seek to assess the risks and impacts related to climate change on their investments. The letter also encouraged the company to respond to the CDP climate change questionnaire through the CDP reporting platform. We received a response from the CEO saying he would investigate Perseus Mining’s capacity to respond before the initial deadline of the end of July, but that the company was currently focused on producing its inaugural consolidated Operations, Finance and Sustainability Report for the upcoming year end.

We then set up a call with the CEO and the general manager of communications and corporate services to further discuss our view on sustainability reporting and why we support CDP’s disclosure initiatives. The CEO highlighted that, being resource-constrained, the company had decided to work with ratings agencies that evaluate across all dimensions of ESG, in contrast to CDP’s sole focus on environmental data. There was an understandable element of frustration about the volume of environmental data reporting standards and frameworks for companies to respond to, which then leads to resourcing issues and reporting fatigue. With the year end reporting burden, the company felt it could not commit to the July deadline to submit its environmental data and receive a CDP score.

However, the reporting window remains open until the end of September. Any submissions after July won’t receive a score, but the data will be made available to investors. So Perseus Mining has committed to seek to provide an unscored response to CDP and will look to include the CDP questionnaire in its reporting cycle in 2024.

# About Ruffer

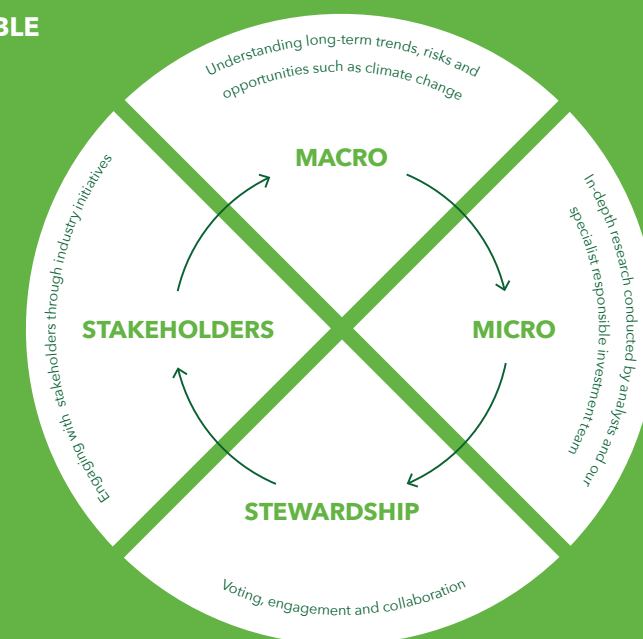
## OUR AIM IS TO DELIVER CONSISTENT POSITIVE RETURNS – WHATEVER HAPPENS IN FINANCIAL MARKETS.

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

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

ESG factors form one part of our fundamental analysis. We have a collaborative research process between the research analysts, members of the responsible investment team, and responsible investment specialists. 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 also is an effective tool to achieve meaningful change.

## OUR RESPONSIBLE INVESTMENT FRAMEWORK





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