J.P.Morgan CAZENOVE

RIT Capital Partners – Final results

01 March 2022

The 31/12/21 NAV of 2,794pps (£4,390m) was in line with that previously reported on 28/1/22 and represents an NAV TR of 23.6% for 2021. The share price TR over the same one year period was 35.1%. Both measures are considerably ahead of the MSCI ACWI Index TR (50% converted in £, 50% £ hedged) of 20.0% over the same period and 10.5% TR from RPI plus 3.0%. All core categories of the multi asset portfolio contributed positively to 2021 total returns but by far the strongest contributor to NAV outperformance was exposure to innovative private companies including the IPO of Coupang in which RCP was an investor at the private stage. The quoted equity portfolio was helped by exposure to more value oriented names although exposure to China and biotech were detractors in 2021. The currency mix was focused on the strong US dollar and sterling, avoiding exposure to the depreciating euro and yen. The table below provides an attribution of the returns from the different assets and we note the 22.4% contribution from private investment representing just 26% of NAV at the start of the year, implying a return of >80% from this sleeve. Compared with the equity benchmark, we estimate a beta of 0.5 over the past five years, also demonstrating the diversifying qualities of RCP vs exposure to listed equities.

£240m of borrowing were drawn at the period end, with £150m undrawn; this was offset by cash and other assets, so total investments are 98.8% of NAV. RCP has relatively small investments in £ assets, and so partly hedges the non-sterling exposure. The year-end sterling exposure was around 69%, with 19% in the USD. RCP paid two dividends each of 17.625pps in 2021. For 2022 RCP is intending to pay a dividend of 37pps, a 5% increase year on year. The payment is primarily from reserves and the long-term objective is to maintain or increase the annual dividend.

The OCR was 0.72% in 2021, up from 0.66% for 2020. There is an annual incentive scheme (AIS) for employees as well as long-term share-based awards (LTIP), with the AIS capped at 0.75% of NAV. The managers estimate that the average annual fee paid to a third party manager (which is not in the OCR) is an additional 0.87% of average net assets, though this excludes performance fees. RCP does not have a hard DCM, but did buy back 59,189 shares during the year, and the Board says its approach is to minimise volatility for shareholders. The discount narrowed significantly in 2021 although has widened again in 2022 YTD. Based on the latest NAV of 2696pps as at 31/1/22 and current share price of 2465p (@10:00) RCP trades at a discount of 8.6%. The managers expect a broad range of assets to be affected by the shift from easy monetary conditions of the past decade to a more normal rate environment and also notes rising costs as presenting challenges. The managers remain cautious in their approach and continue to prioritise capital protection.

J.P. Morgan View: We wrote about the year-end NAV when it was announced in late January 2022 and reiterating what we said then, RCP's performance in 2021 was excellent with an outstanding return from its private investments. There may be further upside to come when the Q4 21 marks are announced for the private funds, 25% of NAV, which are largely held at 30/9/21 valuations although we note that YTD in 2022 quoted markets have fallen so managers may have an eye on any quoted comps that have declined despite it being a 31/12/21 valuation exercise. Management think that many of the fund valuations reflect last funding rounds for the investee companies and where this is the case a quoted comp may not be relevant to the valuation. RCP's strong NAV performance relative to the rather eclectic peer group was rewarded with a narrowing of its discount to NAV in 2021 but it has since de-rated as the sector as a whole has seen discounts widen. On an estimated discount of around 9% (it is difficult to be precise given the NAVs are only announced monthly) we believe current levels represents an excellent entry point given the likely volatile markets ahead, with the management team having a proven long-term track record of performing well whatever the market conditions. We remain Overweight.