

Numis

RIT Capital – Bravo!

01 March 2022

By James Glass

This morning, RIT Capital (£3.88bn market cap) has released its Final Results for 2021. The 2021 Year End NAV of 2,794p was released at the end of January. Over the year RIT Capital generated NAV total returns of 23.6% in 2021, exceeding both of its comparator indices: 10.5% for the inflation measure RPI plus 3% pa, and 20.0% for the equity index MSCI AC World (50% in Sterling, 50% in local currencies).

Before I outline what the main contributors were that drove 2021 performance were, I would just like to remind what RIT Capital said at the end of last Summer which seems a very long time ago and when financial markets were different to those today

Stock markets are often characterised as reflecting expectations of the future. And yet, with some countries still experiencing extraordinary challenges from the pandemic, economies impacted by output constraints, and the risk of a sustained resurgence of inflation and higher interest rates, the medium-term outcome could be very different to the relatively benign one suggested by markets.

Today's Final Results add colour to drivers over 2021, the key one being Private Investments (+22.4% contribution), evenly split between direct and funds. Coupang generated c.25% of the overall contribution for Private Investments following its successful IPO in March. Beyond Coupang companies supporting the development and infrastructure underpinning digital currency markets and blockchain performed well. The Private exposure is split between 24.8% in Third-Party Funds and 11.7% in direct being predominantly co-invests. The larger Direct Privates include KeepTruckin (1.3% of net assets), Webull (1.3%), Kraken (0.8%) and Hong Kong based Animoca Brands (0.6%) which has raised money several times of late, in up-rounds, as blockchain gaming captures many attention. Whilst the larger Private Fund interests included innovation focused managers such as Thrive (4.2%), Iconiq (4.2%) Ribbit (1.3%) and Greenoaks (1.2%). New commitments of £333m were made in 2021 including funds managed by Hunter Point Capital (minority stakes in alternative asset managers), Greenoaks and Liontree.

Abs Return & Credit (+2.1%) and stood at 17.7% at the end of 2021 versus 22.5% where it started the year. RIT took the opportunity to decrease some of its corporate credit exposure following healthy gains, having added to its credit exposure in 2020.

Performance of the Quoted Equity portfolio (+1.2%) reflects low exposure to tech (accessed through private investments), and weakness in China and biotech (c.40% of the allocation). Net quoted exposure was moderate in 2021, averaging 43% for the year and compares to 48.4% at the start of the year. Consistent with RIT's long-standing risk management approach, where direct private investments floated and were not sold, RIT deployed hedges when deemed appropriate. New investments in this segment included funds such as 3D Opportunity (Japanese equity hedge fund) and EcoR1 (biotech long-short hedge fund).

Real Assets (-0.1%) modestly detracted due to the 4% fall in the gold price. The gold price move somewhat "surprised" RIT given that real yields have remained negative although may be explained by institutional adoption of crypto and flows towards more economically sensitive commodities.. Several direct Private Investments were reclassified to quoted following IPO, the manager highlights its approach to risk mgt noting hedges were deployed to mitigate volatility post-listing.

RIT Capital bought back 59,000 shares in 2021.

In 2021, RIT produced the JRCM's Responsible Investment Framework & Policy. This is available via the link: <https://www.ritcap.com/regulatory-disclosures>

The RIT Board intends to pay a 37pps dividend in 2022, in two instalments in April and October. This represents a 5% increase over the 2021 dividend.

RIT's Francesco Goedhuis and Ron Tabbouche "expect short-term volatility, particularly in high-growth sectors" due to shifting monetary policy and elevated valuations in some areas. RIT is approaching every new investment with caution, selecting those which offer an appropriate margin of safety. The portfolio remains balanced so themes and risks are appropriately weighted. Many of the investment opportunities and managers within the RIT Capital portfolio are closed to new investment. Finally, RIT says "Whatever the underlying cause, volatility can often feel uncomfortable, but the flip side is that if markets react indiscriminately, this can also provide opportunities."

Numis View: Another strong year, delivering outperformance of both benchmarks despite modest equity market exposure, building on the exceptional long term track record which seeks to deliver long-term capital growth whilst preserving shareholders' capital. The latter is increasingly more important in volatile markets therefore it's comforting to hear the managers utilising hedges where appropriate once private companies have listed and being selective on new investment. RIT Capital remains our core long term recommendation in the Global Investment Companies sector. c.8% discount to the 31 Jan NAV, the index is off c.2.4% since then so probably closer to a 7% which we believe is an attractive entry point. The bulk of the private fund investments (c.25% of NAV) are valued at 30 September.

Since inception, RIT's NAV has now participated in 74% of market upside but only 38% of market declines. Over the same period, the total shareholder return has compounded at 12.4% p.a. compared to the ACWI of 7.8%. RIT Capital has only one "product" RIT shares which provides them with focus, where they are focused on NAV growth and not asset gathering.