Numis

RIT Capital – Final Results: Remains defensively positioned

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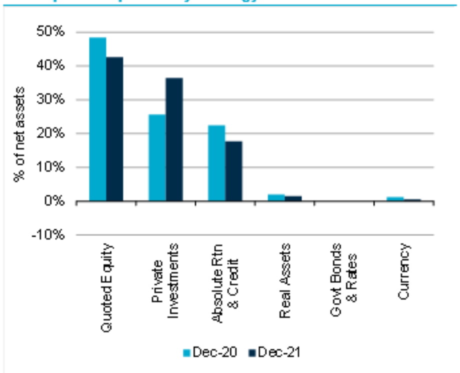
By Andrew Rees

Performance: RIT Capital Partners delivered an NAV total return of 23.6% in the financial year to 31 December 2021 versus 20.0% for the MSCI AC World Index (50% in Sterling, 50% in local currencies) and 10.5% for the fund's absolute return target of RPI plus 3%. The December NAV of 2,794p had already been released. However, the results provide far more colour on the fund's performance and portfolio. The company only releases a monthly NAV, and the latest figure for 31 January 2021 of 2,696p, down 3.5% from the year-end, versus a 4.4% fall for the index. The shares are currently trading at 2,475p, down 10.0% ytd and equivalent to a c.8% discount to the last published NAV.

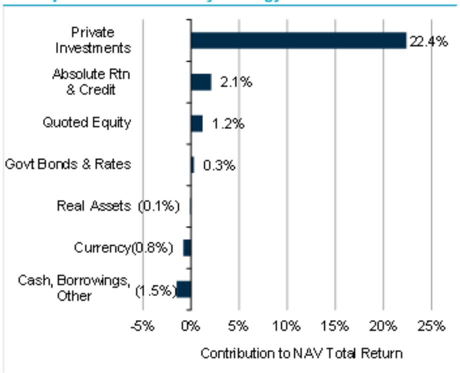
Attribution: RIT Capital maintained its cautious approach, with net quoted equity exposure averaging 43% over the period. The key driver of performance over the year was the Private Investments portfolio (+22.4% contribution), evenly split between direct and fund investments. Coupang generated c.25% of the overall contribution following its successful IPO in March. The Absolute Return & Credit portfolio (+2.1% contribution) delivered solid returns with little correlation to equity markets. The Quoted Equity portfolio (1.2%) lagged global markets, as would be expected given the low exposure to technology, which the managers access through Private Investments, and the bias towards China and biotech (c.40% of the allocation). Real Assets (-0.1%) modestly detracted due to the 4% fall in the gold price.

RIT Capital - Exposure by Strategy



Source: Company data

RIT Capital - Contribution by Strategy



In Sterling.
Source: Company data

Quoted Equities: Exposure to equities is through a combination of long-only funds, 20.7% of net assets, direct equities/co-investments 10.4%, and hedge funds 11.5%. As mentioned above, c.40% of the allocation is to China and biotech, two of RIT Capital's core themes. 2021 was a difficult year for China due to regulatory headwinds, whilst biotech struggled as investors became more defensive and shifted towards more established names. Exposure to value stocks, such as through Morant Wright in Japan, was positive, as was the fund's positions in quality names such as Alphabet and Keurig Dr Pepper. Several direct Private Investments listed during the year, including Coupang, and the managers highlight the approach to risk management which includes hedging some of the exposure to successful IPOs post-listing which has mitigated some volatility. Two significant new fund investments were made in 3D Opportunity (Japanese equity hedge fund, 1.7% of NAV) and EcoR1 (biotech long-short hedge fund, 1.5%). Indian and Latin American funds were redeemed.

Private Investments: The allocation to private investments grew significantly to 36.5% from 25.6% at the start of the year predominantly due to strong performance. 24.8% is invested in third-party funds and 11.7% in direct holdings. Beyond Coupang, performance within the Direct pirvate portfolio (11.7% of NAV) was driven by businesses supporting the development and infrastructure underpinning digital currency markets and blockchain technologies. The Funds portfolio (24.8% of NAV) has a targeted thematic exposure to technology, which was beneficial for performance, particularly those managed by Iconiq and Thrive. RIT invested £250m in co-investments over the year, and made £333m new commitments, the vast majority being in the US including funds managed by Hunter Point Capital (minority stakes in alternative asset managers), Greenoaks (concentrated growth equity in tech-enabled businesses) and Liontree. The majority of the private funds are valued using the General Partner's September valuations, adjusted for subsequent calls and distributions up to the year end.

RIT Capital - Direct Private Investments

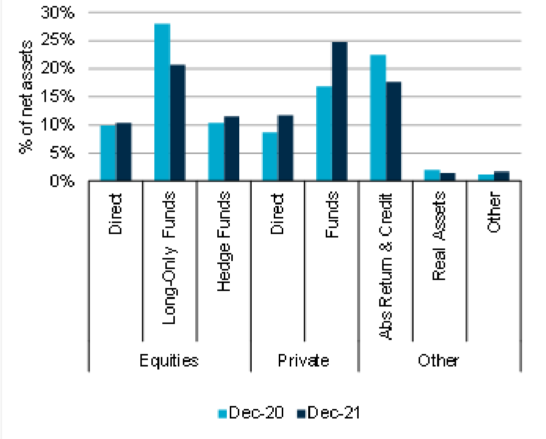
					Value £m		
Investment	**Country**	**Business**	**Date**	**Dec-20**	**Jun-21**	**Dec-21**	**% Net Assets**
KeepTruckin	US	Logistics	2019	44.5	50.9	56.4	1.3
Webull	US	Fintech	2021	-	50.7	55.7	1.3
Kraken	US	Fintech	2021	-	11	33.2	0.8
Animoca	Global	Online games	2021	-	-	27.8	0.6
Airtable	US	Software	2020	7.4	13.5	23.7	0.5
Epic Systems	US	Healthcare	2021	-	21.7	22.1	0.5
Age of Learning	US	Education	2015	13.6	23.1	21.9	0.5
Paxos	US	Fintech	2021	-	14.2	20.8	0.5
Brex	US	Fintech	2020	7.6	17.5	17.8	0.4
Bolt	Estonia	Ride hailing	2021	-	-	16.8	0.4
Other Direct				240.8	182.8	217.2	4.9
Total Direct				**313.9**	**385.4**	**513.4**	

Note: Disclosed private investments at 31 December 2021. Source: Company & Numis Securities Research

Absolute Return and Credit: represent 17.7% of net assets. The aim of these investments is to deliver stable returns through investing in strategies that are less correlated to markets. Performance over the year was solid, with funds focused on distressed situations performing well as corporate restructurings continued. Exposure was reduced from 22.5% at the start of the year, reflecting the normalisation of credit markets.

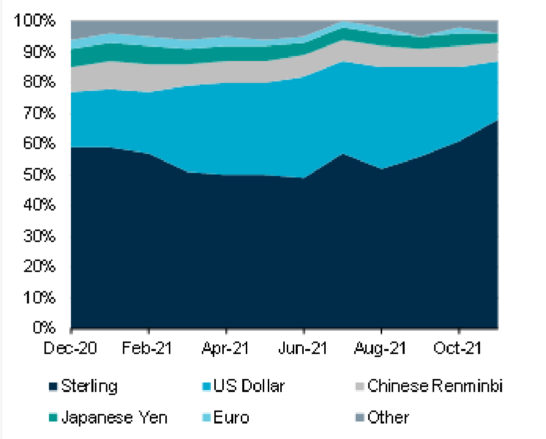
Currency: RIT Capital is differentiated from most investment trusts by its active, unconstrained management of currency exposure. Exposure to the US Dollar was increased after Sterling's rise over Q1 as the manager expected a more hawkish Federal Reserve. Sterling was subsequently increased towards the end of the year, providing some protection from its rally.

RIT Capital - Portfolio by Asset Type



% of net assets at 31 December 2021.
Source: Company & Numis Securities Research

RIT Capital - Currency Exposure



Source: Company data

Expenses: The company's ongoing charges figure (OCF) was 0.72% in 2021 (0.66% in 2020). However, these figures exclude performance related pay, including LTIPs of £20.4m (0.40%), as well as external management costs relating to fees charged by third party managers. RIT Capital estimates that external fees are equivalent to 0.87% (0.89% in 2020) of average net assets (excluding performance incentives). RIT Capital's use of specialist third-party managers means that its "all-in" expenses are higher than most of its peers. However, we believe that the company's industry connections, partially developed through these fund investments, are crucial to its wider opportunity set and impressive track record. We would also highlight commentary from the manager on performance fees/carried interest which we believe is critically important messaging for the Investment Companies sector at a time when many investors are, almost exclusively, focused on fees – "These are a necessary cost in investing in many difficult to access, high-quality managers and unique deals. As they are only paid for good performance, we would rather have the strong performance net of such fees, adding to the NAV return, than not".

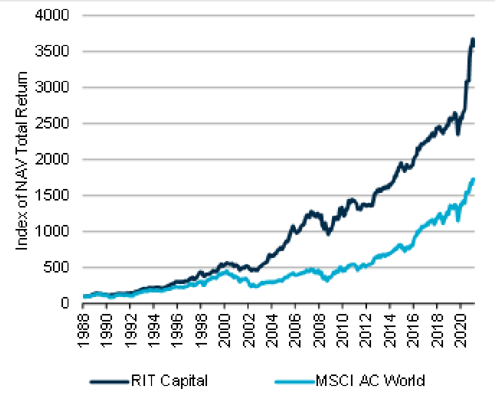
Executive Committee: Jonathan Kestenbaum (COO) is to retire from JRCM after ten years. Andrew Jones, the current CFO, has been promoted to CFO and COO. Andrew has been at JRCM for 14 years, and therefore has an in-depth understanding of the firm's operations.

Manager Outlook: Francesco Goeduis (CEO) and Ron Tabbouche (CIO) expect short-term volatility, particularly in high-growth sectors due to shifting monetary policy and elevated valuations in some areas, but do not expect a sustained equity market downturn. Geopolitical risks remain a concern and are dominating short term moves. From a macroeconomic perspective, they believe we are going through a much-needed normalisation process following an extended period of exceptionally loose monetary policy. They have some concerns around a cyclical downturn driven by higher energy and input costs, but this is expected to be offset by the easing of supply chain disruptions which should help to ease inflationary pressures. Over the near term, they expect "value" to outperform and there may be more volatility in "growth" assets in both private and public markets, but long-duration assets are expected to come back in demand later in the year. Reflecting this, the portfolio is defensively positioned with equity exposure of just 35%, at the low end of its historic range and they have put in place hedges in expensive software stocks. They are approaching every new investment with caution and ensuring appropriate margins of safety are in place. Portfolio construction remains paramount and the fund remains balanced such that themes and risks are appropriately weighted, seeking to allow the portfolio to perform in a range of market outcomes. The managers highlight that "Whatever the underlying cause, volatility can often feel uncomfortable, but the flip side is that if markets react indiscriminately, this can also provide opportunities." Recently, the managers have been increasing exposure to European value and commodity sensitive positions. They believe 2022 has the potential to be a very challenging year and believe it is essential to stick to their disciplined approach.

Numis Views: 2021 was another strong year for RIT Capital Partners, with the fund delivering outperformance of both its benchmarks, despite having modest equity market exposure. RIT Capital has an exceptional long term track record through an unconstrained investment approach seeking to deliver long-term capital growth, whilst preserving shareholders' capital. The latter is becoming increasingly important in volatile markets. Private investments, focused on disruptive technology stocks, have been a strong driver of returns, but we believe the managers positioning continues to reflect its defensive style with hedges being used where appropriate, equity exposure being close to historic lows at c.35%, and the managers being highly selective on new investment. RIT is differentiated from most Investment Companies by being self-managed, but also by its active management of both equity and currency exposure. Since inception in 1988, it has delivered an attractive return profile, participating in 74% of market upside, but only 38% of market declines. This has resulted in the NAV total return compounding at 11.3% pa, significantly ahead of global equity markets - the MSCI AC World and FTSE All Share delivered annualised Sterling total returns of 7.8% and 7.1% respectively.

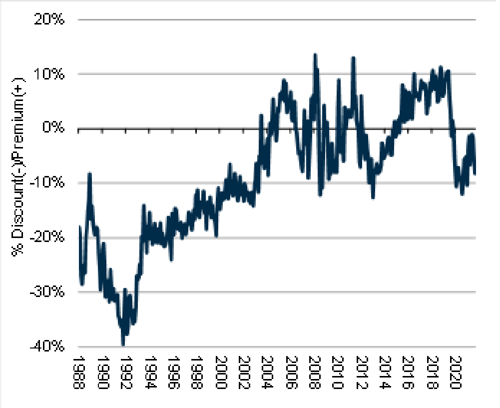
RIT Capital (£3.9bn market cap) remains our core long term recommendation in the Global Investment Companies sector. We believe that the fund's emphasis on capital protection fits well with the risk tolerance of many private investors. In addition, we believe that the team, supported by its connections to leading third-party managers, is well placed to exploit opportunities that arise across a range of asset classes on a global basis. RIT Capital is trading at a c.8% discount to the last published NAV at 31 January whilst the majority of the private investments held at 30 September valuations. We believe this offers an attractive buying opportunity.

RIT Capital - NAV Total Returns since Listing



To 31 January 2022. Source: Datastream

RIT Capital - Long Term Discount History

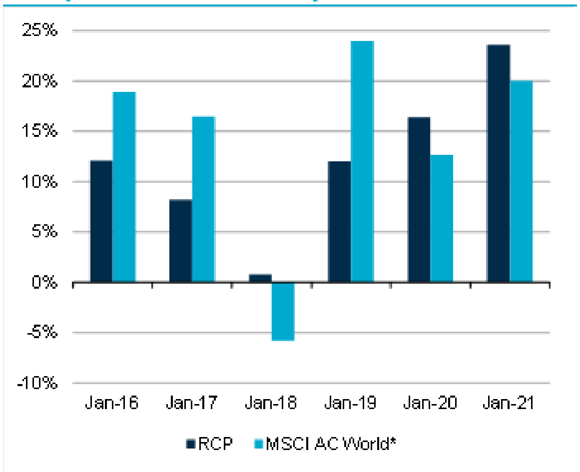


Source: Datastream

The managers seek to achieve this defensive return profile through their "six cylinders" approach. At any one time, it is not expected that all cylinders will be delivering strong returns, instead the approach provides diversification to deliver in a range of markets conditions. The six cylinders are: Top-down themes; Investing alongside exceptional managers; Single stocks; Active currency management; Absolute Return & Credit; and Private investments. The effectiveness of this approach has been demonstrated in recent years when RIT Capital has delivered a defensive return profile:

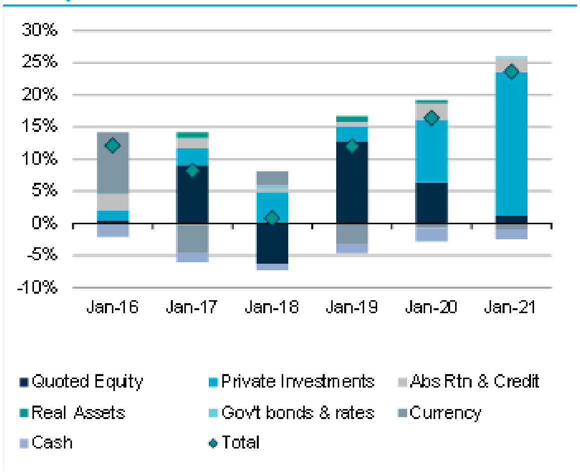
- 2018 (0.8% NAV total return vs -5.8% for MSCI AC World (50% Sterling/50% local currency): Protected capital in weak equity markets, helped by low net equity exposure (ave. 47%), positive contributions from private investments, as well as US treasury call options and gold benefiting from the "flight to safety" at the end of the year. Conversely, Asian equities had a tough year.
- 2019 (12.0% vs 24.0%): Defensive approach lagged in strongly rising markets, reflecting net equity exposure of c.43%. Most strategies contributed positively to absolute returns, the single stock portfolio delivered strong returns, including growth stocks in H1 and value-orientated stocks in H2. Structural themes in China, biotech and technology recovered, whilst there were steady returns from private and real assets.
- 2020 (16.4% vs 12.7%): Most core strategies made positive contributions. Private investments had a strong year, driven by Coupang, and the bias towards disruptive technologies in US and Asia. Quoted equities also performed strongly driven by healthcare and China, as well as a recovery in more cyclical exposure that was added mid-year. Absolute Return and Credit delivered steady returns as the managers added exposure in volatile markets. Real assets benefited from rising gold prices.
- 2021: (23.6% vs 20.0%): private investments drove performance (+22.4% contribution), particularly Coupang. Net equity exposure average 43% and quoted equity lagged wider markets due to low exposure to technology, and a focus on China and biotech. Absolute Return & Credit delivered solid returns, whilst falling the gold price was a drag returns for real assets.

RIT Capital – Performance History



*MSCI AC World measured 50% in sterling, 50%in local currency Source: Company data

RIT Capital – Performance Contribution



Source: Company data