RIT Capital Partners returns bounce back, but managers will exercise caution moving forward

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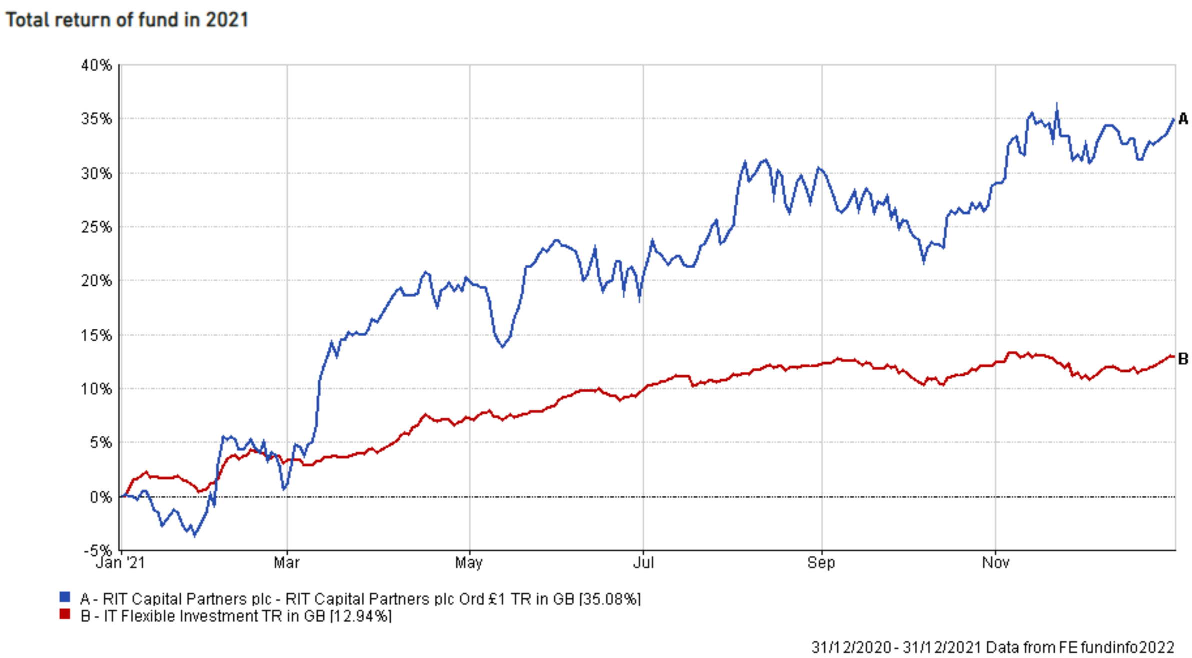
By Tom Aylott

Defensive trust pick RIT Capital Partners rebounded strongly in 2021 after falling to a 0.4% loss in 2020, when the pandemic rattled the IT Flexible Investment sector, but the managers have warned that higher inflation and interest rates meant investors must be extremely cautious this year.

For the year to December 2021, the trust made a total return of 35.1%, beating the sector by 22.1 percentage points, according to the trust's full-year report.

At a net asset value (NAV) level the trust was up 23.6% while the remainder of the returns came from the narrowing of the share price discount, which stood at 1.6% by the end of the year, down from a 9.9% discount when at its widest in 2021. Share stood at £27.50 by the end of the year.



Source: FE Analytics

Francesco Goedhuis, chairman and chief executive officer at, J. Rothschild Capital Management (JRCM) and Ron Tabbouche, chief investment officer of JRCM, said: "According to research published by Goldman Sachs, more than 80% of mutual funds underperformed over the year. We are therefore pleased with the performance over 2021."

The managers highlighted strong performance from their private investments and gains from absolute return and credit markets as two main reasons the trust outperformed. Rising stock markets (with the exception of China and biotech) and currency moves, also contributed, they said.

However, they said that today's high inflation environment, and the rapid interest rate hikes anticipated by central banks to combat it, will lead them to be cautious with future investments.

Sir James Leigh-Pemberton, chairman of the trust, said: "With the advantage of permanent capital, we are not under pressure to make investments, and our manager regularly declines investment opportunities which, despite promising good returns, do not offer the requisite margins of safety.

"With turbulent times ahead, this diversified and disciplined approach will be essential to fulfil our objective of long-term capital growth while keeping a strong eye on capital preservation."

Risk adjustments have already been made to the portfolio, such as increasing the allocation of private investments to 36.5% in the past year, up from 25.6% in 2020.

Anthony Leatham and Markuz Jaffe, research analysts at Peel Hunt previously recommended the trust as a top alternative option for investors due to its strong private investment portfolio.

Quoted equity holdings still make up the largest allocation moving forward, but the managers have reduced this by 5.8 percentage points to 42.6% over the past year. Overall, portfolio contributions from the area were at 1.2%, down from 6.4% the year before.

Nick Wood, head of investment fund research at Quilter Cheviot suggested that the trust is a safe option to hold for any investor due to its defensive nature.

He said: “The mix of equity alongside holdings that are more likely to protect in difficult markets such as hedge funds and absolute return funds, means that historically RIT has tended to perform best in falling markets, and not quite keep up in strongly rising markets.”