Kepler

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Results Analysis: RIT Capital Partners

- Over the six months to 30/06/2023, RIT Capital Partners' (RCP) NAV per share total return (including dividends) was broadly unchanged at -0.2%. This compares to the MSCI ACWI (50% £) which was up 11.0% and CPI plus 3% at 5.5%. The S&P 500 delivered double digit returns over the same period, and the NASDAQ had one of its strongest gains in a decade, up almost a third. A 'tech is everything' narrative, buoyed by optimism around artificial intelligence, saw a robust recovery for a relatively narrow range of stocks. Excluding a handful of the largest technology companies, the remaining stocks in the S&P 500 averaged more modest returns. The FTSE 250 (of which RCP shares are a constituent) declined by nearly 1%.

- RCP's in-house management team (J Rothschild Capital Management) maintained a relatively low quoted equity exposure over the period. They also deliberately had little exposure to publicly listed technology stocks, given this sector is well-represented in the private investment portfolio. Despite this, the quoted equity portfolio performed well, helped by some strong stock picks, as well as healthcare and Japan exposures. Private investments were down slightly for the half year, overall supported by a number of transactions at or above previous carrying values. The largest detractor over the six months was currency, driven in large part by Sterling's 5.1% appreciation against RCP's US dollar-denominated assets. Elsewhere, the uncorrelated strategies portfolio was additive, with credit and interest rate positions as well as gold, all in positive territory.

- Over the six months, the discount to NAV at which RCP shares trade widened by 10 percentage points to 21%. The board have discussed this situation at length, and have a two-pronged approach. Firstly, they have deployed a material amount of capital in share buybacks, to lock in the accretive benefit for shareholders, improve liquidity and help reduce the discount volatility. Over the six-month period, RCP bought back 5.6 million shares at a cost of £105m.

Secondly, the board are enhancing RCP's communications efforts to provide a more frequent and more detailed flow of information on the portfolio and its performance.

- A total dividend for 2023 of 38 pence per share has been declared, an increase of almost 3% from 2022. RCP's dividend yields c. 2% at the current share price. Gearing remained broadly static over the period, finishing at 6.8% of NAV. The manager reports that they are holding healthy levels of liquidity, believing these are fertile markets for deploying long-term capital, in particular in US mid-cap stocks, and European credit.

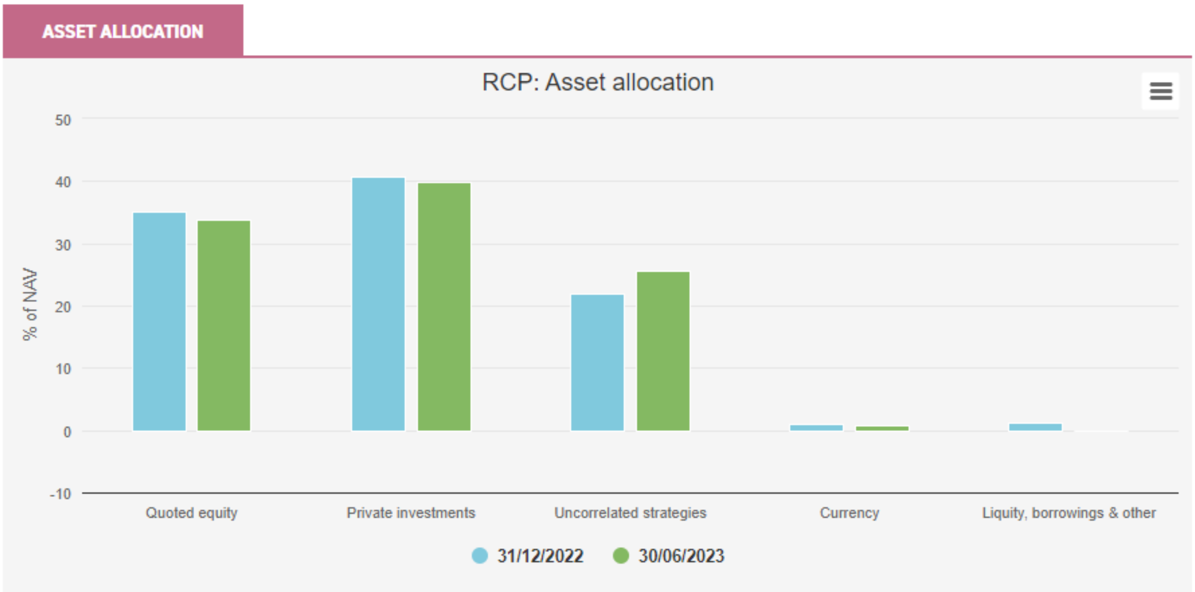
- Chairman of the board Sir James Leigh-Pemberton said, "the complicated backdrop is providing an exceptionally fertile environment for our Manager, JRCM, to identify opportunities in both quoted equity and credit markets which should, we believe, offer healthy double-digit returns with a meaningful margin of safety… I am delighted that Nick Khuu has been promoted to Co-CIO. Nick is a very experienced investor who has been instrumental in the management of both our quoted equities and uncorrelated strategies"

Kepler View

Context is everything. So whilst RIT Capital Partners' (RCP) NAV performance over the first half of 2023 may have lagged rising equity markets (and is perhaps part of the reason why the discount to NAV has widened), it is worth remembering that RCP has been cautiously positioned with respect to equity markets, both by having a relatively low net equity exposure, and within this by having a relatively defensive underlying equity exposure.

The low exposure to quoted technology businesses (which have led equity markets) is a result of the manager's conscious decision to gain exposure to their digital transition theme within private markets. RCP's managers highlight that stripping out the few megacap technology stocks from the S&P 500, the remaining stocks averaged a return of around 6% over the six months to 30/06/2023. By comparison the quoted equity book rose by almost 7% in the first half, an entirely acceptable performance. Private investment valuations tend to lag, and so if bullish sentiment on technology remains a feature, we may potentially see this filter through to RCP's NAV via further realisations and upside potential in the private investments book.

RCP aims to deliver long-term capital growth, while preserving shareholders' capital. Historically, RCP's NAV has participated in 74% of market upside, but only 41% of market declines since inception. It achieves this through diversification across a broad spread of asset types, as well as active risk management by the in-house management team, which aims to shield the portfolio from specific risks. That said, there can be times when parts of the portfolio are not performing. As the graph below shows, private investments make up the largest individual segment of the portfolio. It is this section of the portfolio that powered the strong performance of the trust relative to equity markets during 2020 and 2021, but contributed to negative returns during 2022, and has marginally detracted so far in 2023. A consequence of the strong organic performance is that private investments now represent c. 40% of NAV, a figure we would expect to trend downwards over time as the portfolio naturally rebalances. Sentiment on the relatively high exposure to the private portfolio is likely a contributor to RCP's discount widening (we note that listed private equity trusts currently trade at historically wide levels in discount terms). Despite relatively muted activity within the private portfolio, during the half year the manager notes the robustness of valuations in this part of the portfolio, evidenced by three disposals over the period at or above carrying values. The managers note that the majority of their private investments are profitable, or have enough cash to enable a runway of more than a year without further fundraising. As we highlight above, if parts of the private portfolio were sold at attractive premiums to valuations, this may have a dual impact of driving NAV returns but also, as the proportion invested in private assets declines, potentially act as a catalyst for the discount to narrow.



Source: RIT Capital Partners

The board have shown themselves willing to actively address the discount, with a significant amount of highly accretive share buybacks having taken place. The managers do not yet see grounds for increasing their overall exposure to equity markets, but continue to focus on specific themes, such as healthcare, digital transition and Japan. We welcome the promotion of Nick Khuu as co-CIO, which illustrates the strength and depth of the talent on the investment team. RCP is set up for, and has historically dealt well with, challenging periods for equity markets such as the period we currently face. The board report that they are confident that the in-house management team will continue to find attractive opportunities to invest RCP's capital, but also see the current discount as a compelling investment for shareholders, as is evidenced by continuing buybacks.