J.P.Morgan CAZENOVE

RIT Capital Partners – Final results

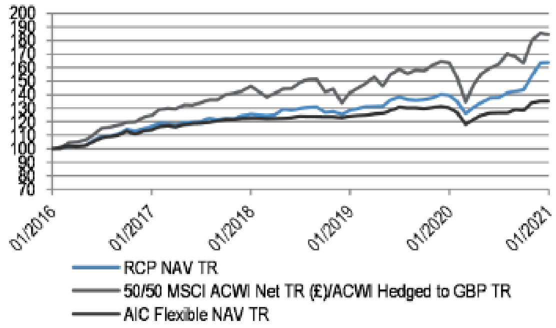
02 March 2021

RIT Capital Partners (RCP) has announced its final results for the year to 31/12/20 this morning. The key points are as follows:

Introduction: RCP's objective is to deliver long-term capital growth, while preserving shareholders' capital; to invest without the constraints of a formal benchmark, but to deliver for shareholders increases in capital value in excess of the relevant indices over time. The in-house management team (J Rothschild Capital Management), led by CEO Francesco Goedhuis, with Ron Tabbouche as CIO, invest publicly and privately across multiple asset classes both directly and via leading third-party managers.

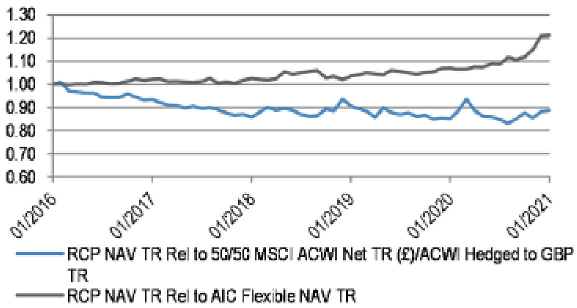
NAV: The 31/12/20 NAV of 2292pps (£3,590m) was in line with that previously reported on 4/2/21 and results in an NAVTR of 16.4% for 2020; however, as the discount widened, the TSR was -0.4%. The KPIs against which performance is measured are RPI +3% (4.2% for 2020) and the MSCI ACWI (50% converted in £, 50% £ hedged) of 12.7%. Outperformance resulted from a diversified approach and moderate net quoted equity exposure of 43% of NAV, which protected the portfolio earlier in 2020, and a tilt towards Asian equities, particularly China. RCP also retained its allocation to healthcare and other themes include quality growth, cyclicals and ESG-friendly stocks. The allocation to private investments benefitted from disruptive tech in US and Asia. RCP also deployed capital into non-equity strategies including absolute return and credit that also performed well. The sterling exposure was managed over the year, increasing exposure in the final quarter and using options to hedge Brexit risks, before reducing levels following the strong rally. The main headwind was the exposure to cyclical stocks earlier in 2020 (although these performed well in Q4) as well as the change in the fair value of RCP's debt. The table below provides an attribution of the returns from the different assets and we note the 9.8% contribution from private investment representing just 25% of NAV at the start of the year implying a return of almost 40% from this sleeve.

Figure 2: RCP NAV TR over five years to 31/01/21



Source: Refinitiv Datastream

Figure 3: RCP NAV TR relative to benchmark and AIC Peers



Source: Refinitiv Datastream

Table 1: Return attribution by asset class

	31/12/2020 % of NAV	2020 NAV contribution	31/12/19 % NAV	2019 NAV Contribution
Quoted Equity	48.4	6.4	46.7	12.7
Private Investments	25.6	9.8	25.1	2.4
Absolute Return and Credit	22.5	2.5	22.9	0.7
Real Assets	2.0	0.5	2.9	0.9
Govt Bonds and Rates	0.0	-0.1	1.2	-0.1
Currency	1.2	-0.6	1.3	-3.1
Total Investments	**99.7**	**18.5**	**100.1**	**13.5**
Liquidity, borrowings & Other	0.3	-2.1	-0.1	-1.5
Total	100.0	16.4	100.0	12
Av net quoted equity	43.0		46.7	

Source: Report and accounts

Portfolio: Quoted Equity finished the year at 48.4% of NAV and comprises directly held stocks, longs only funds, equity hedge funds and equity exposure management positions. Direct stocks are 21% of this allocation, Hedge 22% and long only 57%. The direct stocks are mainly 'quality growth'. Within quoted equities, the US is 33%, Asia 31%, Europe 16%, Japan 14%, CEEMEA 4% and LatAm 2%.

Private Investments represented 25.6% of NAV at the period end, of which 17% was held in third party funds and 9% in directs. One of the directs, representing 3.9% of NAV, has filed for IPO in the US in H1 2021, and drove the strong performance. The portfolio benefited from realisations of CSL and Credit Karma which contributed around 1% to NAV. The funds benefited from their high technology exposure. RCP made £145m of new fund commitments. The bulk of the funds are held at their 30/9/20 valuations, adjusted for forex and any realisations.

The **Absolute Return and Credit** portfolio was 22.5% of the NAV at the period end and made a strong contribution with the managers adding to credit during the market dislocation, while the macro managers performed well. Real Assets, are just 2% of NAV, but the gold futures allocation performed well, but this was partly offset by the St James's investment properties (1.7% of NAV).

Balance sheet: £189m of borrowing were drawn at the period end, with £185m undrawn; this was offset by cash and other assets, so total investments are 99.7% of NAV. RCP has relatively small investments in £ assets, and so partly hedges the non-sterling exposure; this cost a net 0.6% in the ear. The year-end sterling exposure was around 59%, With 18% in the USD.

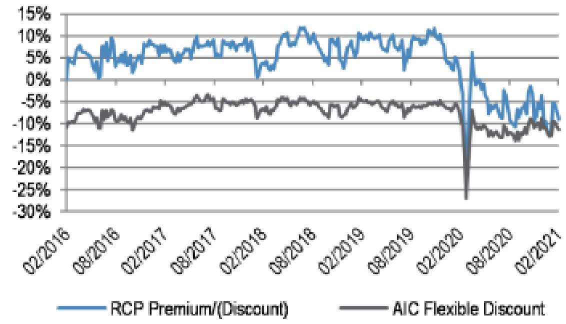
Dividend: RCP paid two dividends each of 17.5pps in 2020. For 2021 RCP is intending to pay a dividend of 35.25pps, an increase of 0.7%, to be paid in two equal instalments in April and October. The payment is primarily from reserves and the long term objective is to maintain or increase the annual dividend.

ESG: The Board has worked closely to develop and refine RCP's approach to responsible investing and other ESG matters, looking at how it integrates these considerations into its behaviour within both the operating businesses and the investment processes. JRCM is a signatory of the UN's Principles for Responsible Investment and believes that this focus on sustainability is a natural component of how it approaches its long-term objectives; for some time now, the managers have been more explicitly incorporating ESG into its fundamental assessment of investments.

Ongoing Charges: The OCR was 0.66% for 2020, down from 0.68% in 2019. 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 third party manager (which is not in the OCR) is an additional 0.89% of average net assets, though this excludes performance fees.

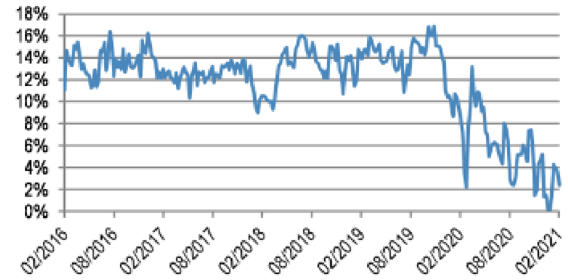
Premium/Discount: RCP does not have a hard DCM, but did buy back 116,000 shares during the year, and the Board says it will selectively purchase in the market when it is judged to be beneficial. The rating widened over the period in both absolute and relative terms as the charts below show.

Figure 4: RCP Premium/(Discount) over five years to 24/02/21



Source: Refinitiv Datastream

Figure 5: RCP Premium/(Discount) relative to AIC sector



Source: Refinitiv Datastream

Outlook: The managers remain cautious given potential disappointments with vaccine rollouts and possible higher inflation and will continue to apply their tried and tested approach to asset allocation and diversified portfolio composition to protect shareholders' capital and grow it over the medium term

J.P. Morgan View

As we wrote when the year-end NAV was announced, this was an excellent performance, with the portfolio firing on all cylinders during one of the most difficult years for investors. As we suspected, the Private investments portfolio was a key driver, but we see further upside potential here as 31/12/20 valuations are received for the 17% or so in third party funds.

We note that RCP's improving performance relative to the rather eclectic peer group has been rewarded with a de-rating. But 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 bumps in the road ahead, with the team having a proven record of performing well whatever the market conditions. We are therefore **upgrading** our recommendation from Neutral to **Overweight**.