Numis

RIT Capital – A Performing Portfolio

02 March 2021

By James Glass

At the beginning of February, RIT Capital informed the market of its 2020 NAV being 2,292p.

As a result, the fund delivered NAV total returns of 16.4% in 2020, compared with 4.2% for its absolute (RPI plus 3% pa) and 12.7% for its market (MSCI AC World Index 50% Sterling) comparator indices.

Outperformance reflected a broad spread of strong results across the portfolio with positive contributions from all core assets including non-equity diversifiers including Absolute Return, Credit and Real Assets.

Net quoted equity exposure averaged 43% over the year. However as RIT's CEO Francesco Goedhuis states this morning it is "where this exposure was deployed", rather than the aggregate level, that proved more important for returns. The book was tilted towards Asian equities particularly China, where RIT continues to see value opportunities from its expanding domestic market whilst allocations to healthcare were retained. Other themes in the quoted equities portfolio included quality growth stocks, cyclical stocks and ESG friendly stocks. In the year quoted equities made a contribution of 6.4% and the exposure stood at 48% of RIT's net assets at the year end. Some of the larger quoted positions will be known such as Acorn aka JDE Peet (2.5%) and Helios Towers (1.2%) but also include IQVIA, Walt Disney, Alphabet and Visa.

RIT's Private Investments, 25.6% of net assets, typically target companies engaging in disruptive technologies in the US and Asia. They contributed nearly 10% to RIT in the year.

The largest underlying direct private investment is South Korean e-commerce business Coupang which has now filed to go public and set its pricing between $27 and $30 per share as it seeks to raise as much as $3.6bn. At the top end of the range Coupang will be valued at as much as $51bn, based on the number of shares outstanding. Coupang plans to list under the symbol "CPNG" As we know recent trading has been strong for Coupang, and so it is not a surprise to see Coupang being written up from £72m at June to £141m at the end of 2020 being 3.9% of net assets.

Other direct investments include KeepTruckin (1.2% of net assets) and Age of Learning (0.4%) both of which remain marked where they were at June. Recent new investment EQRx features in the direct investments nowadays however I cannot see crypto infrastructure play Paxos possibly as it is yet to close.. In total direct Privates represent 8.7% of net assets.

RIT's private fund investments total nearly 17% of net assets with a bias to VC including Iconiq, Thrive Capital, Ribbit who recently led the second round of financing at RobinHood via a convertible.

RIT increased its Sterling exposure in the final quarter.

RIT is increasing its dividend from 35pps to 35.25pps, paid semi-annually.

Looking forward to 2021, Francesco's says "we believe that financial markets will continue to reflect the balance between the pandemic's impact, the roll out and efficacy of the vaccines, and government and central bank's policy responses". As such RIT is likely to continue with its modest quoted equity exposure and have undertaken some de-risking of some of the more frothy areas where we see the risks of overstaying our welcome".

The RIT Chair Sir James Leigh-Pemberton notes that the RIT rating has moved to a discount, and so shareholders experiencing a flat overall return in the year. James comments further that RIT does nt publish a daily NAV due to the nature and composition of its investment portfolio and so the strong performance in December, well above market estimates, was not reflected in the share price. I would add that in weaker months for equity markets, the RIT share price moved far more than how the portfolio actually performed. RIT Capital bought back 116k back at a discount in Q4 and "intends to continue to take the opportunity to selectively purchase shares in the market when it judges that doing so is beneficial".

RIT's share price finished 2020 broadly where it started it, and closed yesterday also broadly at its 2020 close giving up recent gains. It would be wrong for me that not to appreciate that there has been volatility along the way. Over the past 5 years, RIT has participated in 73% of the market upside but only 38% of the market declines.

I think RIT Capital, rightly or wrongly, suffers from a problem of “perception v’s reality” as evidenced by the current discount which is 9% to the January NAV. I expect the team at RIT will be on the front foot this morning following the release of the results and banging their drum.