

RIT Capital Partners (RCP) – Interim results

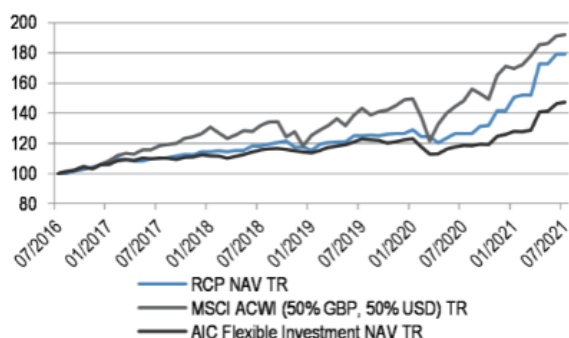
02 August 2021

RIT Capital Partners has reported its interims for the six months to 30/6/21 this morning. They key points are as follows:

Investment Objective: RCP's corporate 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. RCP is self-managed with an in-house investment team, JRCM, and achieves its objective by investing in a widely diversified multi-asset international portfolio and allocates part of the portfolio to "exceptional third party fund managers". JRCM is led by Chairman and CEO Francesco Goedhuis who works alongside CIO Ron Tabbouche, COO Jonathan Kestenbaum and CFO/CRO Andrew Jones.

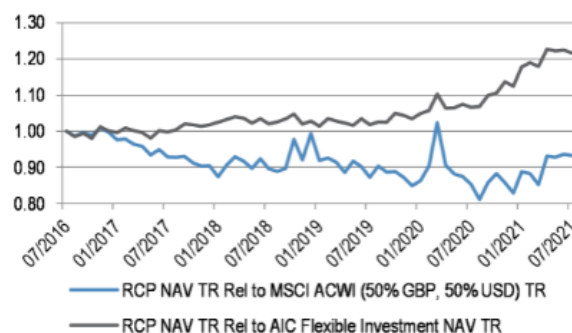
NAV: The NAV of 2711pps (£4,263m) represents an NAV TR of 19.1% for the six months to 30/6/21. The 30/6/21 NAV is the same as was pre-announced on 20/7/21. Over the same six month period the TSR was 18.5%. For comparison purposes the MSCI ACWI (50% £) returned 12.2%. The key drivers of performance in the first half of 2021 were strong performance from the private investment portfolio including from the successful IPO of Coupang, cyclical positions in the quoted equity portfolio along with good stock selection overall, and distressed debt in the absolute return and credit part of the portfolio. The main headwinds were FX due to the relative strength of Sterling. The charts below show that RCP has slightly lagged the equity reference index over the last five years but has steadily outperformed its peer group in NAV TR terms. The NAV TR has a low beta to equities which we estimate is 0.13 for the 5 years to 30/7/21 and the volatility of the NAV TR has been 8.3% pa vs 12.9% for the equity index.

Figure 1: RCP NAV TR over five years to 30/7/21



Source: Refinitiv Datastream

Figure 2: RCP NAV TR relative to index and AIC peers



Source: Refinitiv Datastream

Unquoted assets: The private investments contributed 13.0% pts of the overall portfolio total returns from an allocation of 28.9% implying around 45% overall returns. The IPO of Coupang contributed 5.5% pts of the private investments total and the remainder of the direct investments also saw widespread gains reflecting positive underlying performance, new investment rounds and interest from SPACs. The private funds also saw strong gains helped by the portfolio tilt to technology. Most of the funds are still valued as at 31/3/21.

Table 1: Contribution to H1 returns by asset class

	30/6/21 % NAV	Contribution (% pts)
Quoted Equities	52.1%	6.1
Private Investments	28.9%	13.0
Absolute Return and Credit	19.9%	1.6
Real Assets	1.3%	-0.1
Government bonds and rates	0.1%	0.2
Currency	-0.8%	-1.2
Total investments	101.5%	19.6
Liquidity, borrowings and other	-1.5%	-0.5
Total investments	100%	19.1
Average net quoted equity	46%	

Source: Report and accounts

Dividend: A dividend of 17.625pps was paid in April and the board has declared a dividend of 17.625pps for October, up 0.7% on the prior year's dividend. This is paid from capital profits. At the current share price the dividend yield is 1.4%.

Portfolio activity: RCP slightly increased its exposure to quoted equities (46%) vs the average level in 2020 (43%). The quoted equities portfolio is focused on structural themes and in particular Asian equities. Within the quoted equities portfolio the managers have shifted gradually towards defensives such as Unilever and Reckitt Benckiser which they saw as disproportionately punished by the rise in

bonds yields. Within the private investments there were new direct investments in Epic Systems (£21m), a large healthcare digital record platform in the US and Webull (£50m) and Robinhood (£29m), two financial technology platforms. In the private funds book £173m of new commitments were made. FX exposure at 30/6/21 was 33% US dollar, 49% Sterling, 2% Euro, 4% Japanese Yen and 12% other.

Table 2: RCP top 10 investments

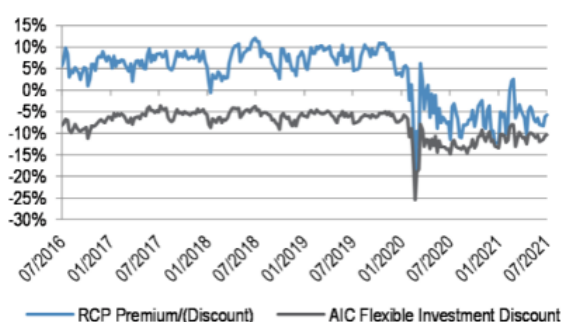
Investment	Asset Class	Sector	£m	% of NAV
Coupang	Quoted equity – direct	Consumer discretionary	382.1	9.0
Iconiq funds	Private investments - funds	Venture capital	190.6	4.5
Thrive Capital funds	Private investments - funds	Venture capital	175.4	4.1
Eisler Capital	Absolute return and credit - funds	Macro	172.3	4.0
HCIF Offshore	Quoted equity – long only funds	US all-cap biotechnology	138.1	3.2
Springs Opportunities	Quoted equity – long only funds	China all-cap diversified	137.7	3.2
BlackRock Strategic Equity	Quoted equity – hedge funds	Global all-cap diversified	136.9	3.2
Attestor Value	Absolute return and credit - funds	Distressed and special situations	123.5	2.9
Morant Wright	Quoted equity – long only funds	Japan S/Mid-cap value	121.1	2.8
Gaoling	Quoted equity - hedge funds	China all-cap diversified	112.8	2.6
Total			1,690.5	39.5

Source: Company reports

Gearing: Gearing was 9.8% at 30/6/21 vs 4.4% at 31/12/20.

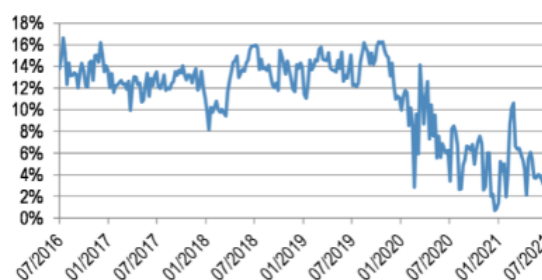
Discount: At the current price of 2560pps (@11:15) the discount to the 30/6/21 NAV is 5.6%.

Figure 3: RCP Premium/(Discount) over five years to 30/7/21



Source: Refinitiv Datastream

Figure 4: RCP Premium/(Discount) relative to AIC peers



Source: Refinitiv Datastream

Expenses: We estimate that direct expenses for H1 2021 were 0.7% pa, ex third party fees which the company has estimated in the past add around 0.9% (ex performance fees). RCP also operates an annual incentive scheme (AIS) for employees as well as an LTIP. The cap for total payments under the AIS is 0.75% of NAV. The AIS rewards outperformance against RPI +3% and the ACWI. The LTIP is based

on the TSR relative to RPI +3% and/or ACWI. The Key Information Document (KID) reduction in yield (RIY) is 4.1% pa. Within that ongoing costs are 2.26% comprising management costs of 0.68% pts, third party fees of 0.90% pts and interest costs of 0.68% pts.

J.P. Morgan View

The 30/6/21 NAV within these results is the same as was pre-announced earlier in July so the new information is a proper attribution of the returns in what was a very strong first half for RCP. The main driver of outperformance is the private investments with a large implied 45% return contributing two-thirds of the overall portfolio return despite private investments being a little more than one-quarter of the portfolio. The star performer was Coupang, now in the quoted portfolio following its IPO, but this only accounts for about 40% of the overall contribution from private investments implying broad based gains across the private portfolio. A bias to technology within the private investments continues to work well for RCP. There could be further gains to come in the next month or so when a majority of the 30/6/21 fund valuations should come through. RCP remains highly differentiated from most peers on account of its size, high quality and stable in-house management team and expertise across a wide range of assets classes. It is in effect a quoted family office, in this case primarily being responsible for the Rothschild family assets. However, this does not come without costs, with look through OCs ex performance fees of around 1.6% pa, but we would argue that, for the direct and indirect expertise on offer and the high percentage in alternatives and absolute return investments, this is not unreasonable and, of course, the impressive NAV performance is net of all fees. The core model of a strong in-house team, augmented by specialist asset managers elsewhere, is attractive, in our view. Trading on a discount of 5.8% to the 30/6/21 NAV RCP remains around the same discount as a year ago having de-rated in 2020 and not since regained the premium sustained for several years prior. We remain **Overweight**.