STIFEL

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RIT Capital – Interims to 30/06/22: NAV TR -8.8% ahead of market indices with quoted equities only 38% of portfolio

Stifel view: As we would expect, given RIT's multi-asset approach, the NAV performed better than listed markets. However, the NAV TR still saw a decline of -8.8%, although this was just over half the decline seen in the ACWI (50% £) Index, which declined -14.7%. RIT's quoted equity portfolio did fall sharply by c.-20%, but this was partly offset by stronger relative performance from absolute return and credit (21.6% of NAV; -0.3% contribution to overall return) and Private Investments at 43.0% of NAV and a -1.7% contribution. We do like RIT's multi-asset strategy with its access to assets with different return profiles, and we maintain our Positive return. (Analyst: Iain Scouller)

Performance: The NAV at 30/06/22 was 2530p vs 2794p at 31/12/21. The NAV total return for the first half of the year was -8.8%, compared to the ACWI (50% £) which was down -14.7%. Keeping net quoted equity exposure towards the lower end of RIT's historical ranges (at 38%) helped to protect shareholders from the worst of the market declines. Absolute return and credit portfolio contribution was flat, emphasising its low correlation to equity markets. After exceptional performance over the past few years, private investments gave back some gains, impacted in particular by US technology market disruption. US dollar and associated currencies strengthening contributed positively, adding +2.4% to overall returns.

Long-term performance in market declines: Since inception, RIT has participated in 76% of the monthly market increases, but only 40% of the market declines.

Private investments: At 30/06/22, private investments were 43.0% of NAV, and they detracted -1.7% to overall returns during the period. Within the direct book, many underlying companies continued to generate robust operating performance. In addition, there were fundraisings at higher valuations resulting in gains for a number of companies, including Motive (previously called KeepTruckin') and OneFootball. While these factors helped provide a degree of resilience to the book, the portfolio overall ended down for the period, reflecting the broad malaise and multiple compression seen in listed markets.

Revenue & dividends: The revenue EPS loss was -7.6p (2021: -4.7p). An interim dividend of 18.5p was paid on 29/04/22. The second interim dividend is 18.5p. This provides shareholders with a total dividend in 2022 of 37.0p, a 5.0% increase over 2021.

Share buybacks: RIT bought back shares accretively as the discount to NAV reached high single digits. During the six months 65,000 shares were bought back at a cost of £1.5m.

Outlook: The managers say: "While we tilted the quoted equity portfolio towards more reflationary assets, we are reluctant at this stage of the cycle to move further in that direction. As we saw in June, when recession risks increase, this disproportionately impacts more cyclically-oriented, reflationary assets. Furthermore, if inflation does take hold for longer, this will not necessarily be detrimental to our growth-oriented positions. Notwithstanding an initial derating, over time, these companies' cash flows should grow with inflation, providing natural protection to long-term investors. Therefore, as

long as there is a reasonable probability of a recession, and we think there is, we believe it is important to maintain a healthy balance across our best 'value' and 'growth' ideas."