J.P.Morgan CAZENOVE

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- **RIT Capital Partners (RCP) – Finals** – RCP today announced its final results for the year to 31/12/19. The fully diluted NAV was 2004pps, in line with the previously reported value. This resulted in an NAV TR of 12%, while the TSR was 12.5%. While this unsurprisingly lagged the MSCI ACWI (50% £, 50% Local) 24% gain, it beat the RPI +3% target of 5.2%. The managers were satisfied with the return given their cautious positioning and note that their quoted equity portfolio (which averaged a net 43% of NAV over the year, but had been reduced throughout the year) contributed 12.7% to returns, implying outperformance, with key drivers being China, biotech technology funds and single stocks where the managers timed a move from growth to value names. The return from other asset classes was described as 'healthy', with real assets performing best, boosted by gold. The main negative was currency which cost 3.1% given sterling's strength. This risk has been mitigated by an increase in £ exposure to 69% of NAV. Charts in the note show RCP's NAV performance relative to the MSCI ACWI and AIC peers over the five years to 31/01/20. Unsurprisingly it has lagged the equity index but it is ahead of peers. On a risk adjusted basis the NAV alpha was 2.3% p.a. with a low beta of 0.43 reflecting the low equity exposure.

- The Private investment portfolio represented 25% of the NAV at 31.12.19 with 15% in third party funds and 10% in directs. Both contributed positively, with the successful IPO of Helios Towers, though was in line with book value. The largest position is Acorn (3.7% of NAV) which is a global coffee and soft beverage company. The Private Investment funds are valued at September valuations so there may be some additional upside when the year end valuations are received, although Q1 2020 is shaping up to be a difficult quarter.

- RCP remains cautious given elevated valuations and went into recent sell-off with 41% equity exposure. While the sell-off has removed some of the excess the outlook for corporate profits remains a concern.

- Annual revenue per share was 8.2pps in 2019. The dividend is 35pps, an increase of 2.9% over the year, and will be paid in two equal installments of 17.5pps in April and October. The dividend is clearly paid substantially from capital. There is no formal DCM, but the company will buy back shares at a discount and consider issuance at a premium. During the year 1.5m new shares were issued to fund a new investment in Liontree, a fast growing merchant bank focused on creative industries and the digital economy.

- JRCM employs 40 people and SHL, which looks after the property portfolio employs 12. Direct ongoing charges were 0.68%, excluding third party fees. Estimated average annual management fees for external managers represent an additional 0.90% of average NAV, excluding 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.

- **J.P. Morgan View:** RCP had a verystrong 2018, with a small positive NAV TR in the face of steep falls in equity markets, so it should not be terribly surprising that given their cautious positioning and a powerful bounce back in equities in 2019 that they lagged behind the equity markets. The underlying net quoted equity portfolio appears to have performed well, however. The risk adjusted performance is nicely captured the low beta to the MSCI ACWI of 0.43, which implies over the last five years (to 31.1.20) alpha of 2.3% pa.

- While RCP is lagging its fully invested equity index over the last five and 10 years that should not be a surprise. Over the long run the company has captured 73% of market upside and only 38% of market declines. That is a ratio very much in shareholders' favour. While we do not have performance data for February, we would strongly expect RCP to have outperformed equity markets, particularly given that it had reduced equity exposure further since 31.12.19.

- 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 1.58% 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. It is difficult to know where the NAV might be, but given the move in the reference index of ~-5.4% since the last published NAV on 31.1.20 of 1987pps, and the equity exposure and beta, a reasonable estimate might be for a 2.3% decline, implying ~1941p NAVe, and at the current price of 2005pps (@10.30) a premium of ~3.3%. We are **Neutral**, as we believe peers such as Tetragon Financial Group offer better value.