Numis

RIT Capital Partners* - Final Results: Another period of solid returns given cautious approach

03 March 2020

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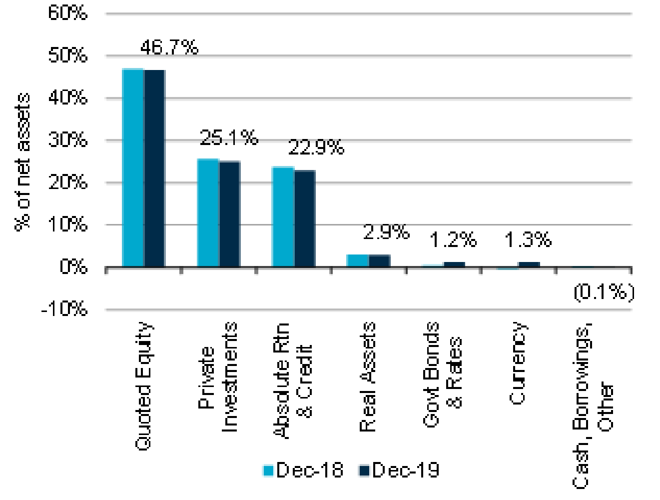
- **Performance:** RIT Capital Partners delivered an NAV total return of 12.0% in the year to 31 December 2019 versus 24.0% for the MSCI AC World Index (50% in Sterling, 50% in local currencies) and 5.2% for the fund's absolute return target of RPI plus 3%. The December NAV of 2,004p had already been released. However the results provide far more colour on the fund's performance and portfolio. The company only releases a monthly NAV, and the latest figure is for 31 January 2020 of 1,987p, down 0.8% from the year-end, versus a 0.6% fall for the index. The shares are currently trading at 1,978p, down 6.4% in 2020 ytd and at around the 31 January NAV of 1,987p.

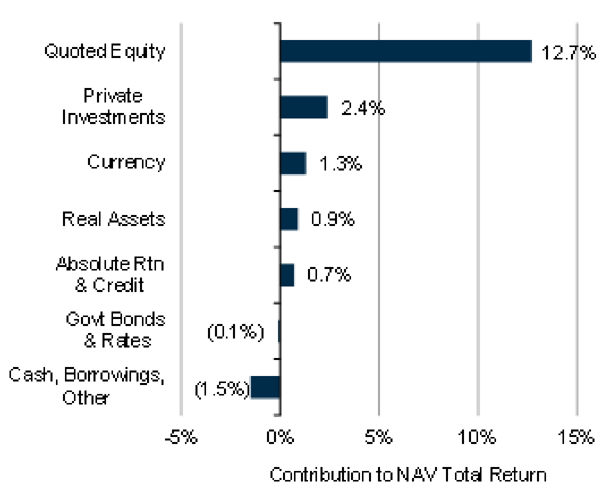
- **Attribution:** Most of RIT Capital's core investment strategies made a positive contribution to absolute returns in local currency. The managers maintained a cautious approach, with net quoted equity exposure averaging 43%. The single stocks portfolio delivered strong returns from growth stocks in H1, then benefitted from a rotation into more value-driven stocks in H2. There was a significant recovery from structural themes including allocations to China, biotech and technology. There were steady returns from Private Investments (+2.4% contribution) whilst Real Assets contributed 0.9% driven by gold-related assets.

RIT Capital - Exposure by Strategy



Note: Percentage data on chart refer to portfolio allocation at the end of 2019. Source: Company data

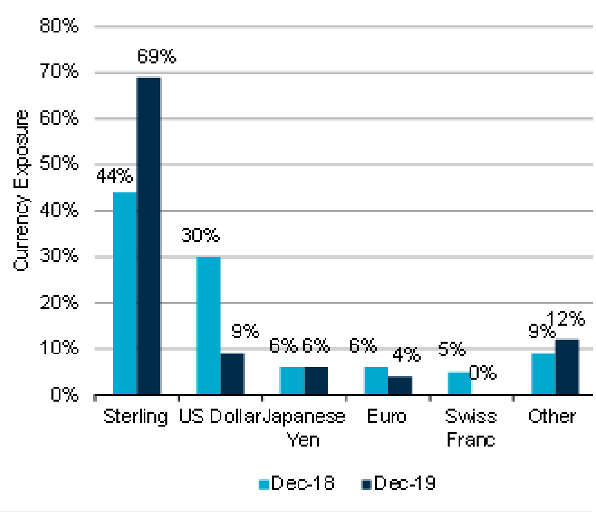
RIT Capital - Contribution by Strategy in 2019



Source: Company data

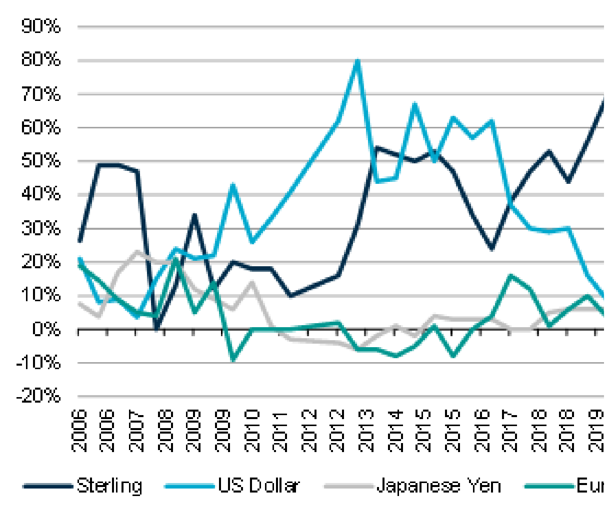
- In contrast to 2018, currency movements were negative as the NAV was impacted by the broad appreciation of Sterling against most major currencies. RIT Capital's Sterling exposure increased to 69% at December 2019 from 44% a year earlier, the highest for more than a decade. Exposure to the US Dollar was reduced to 9% from 30% in the expectation of the Federal Reserve lowering interest rates. The managers a favouring Sterling, despite Brexit uncertainty, given the pro-growth reforms and potential for fiscal stimulus. In contrast, they believe that the US Dollar is unlikely to prove as good a safe haven as it has historically, given the slowing growth outlook. Over the year, Euro exposure was cut slightly to 4% from 6% and Swiss Francs to 0% from 5%. RIT Capital is differentiated from most investment trusts by its active, unconstrained management of currency exposure.

RIT Capital - Currency Exposure



Source: Company data

RIT Capital - Change in Currency Exposure over Time

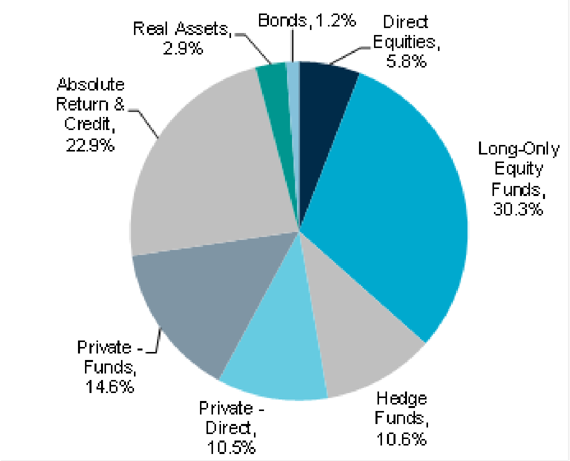


Source: Company data

- **Quoted Equities:** Exposure to equities is through a combination of long-only funds 59%, direct equities/co-investments 20% and hedge funds 21%. The direct stocks portfolio contributed c.5% to overall NAV, benefitting in H1 from the steady rise of growth-driven stocks and a timely rotation towards value and cyclical stocks later in the year. RIT exited successful co-investments in CSX, ADP and Proctor & Gamble. There was dispersion in performance between long-only funds with exposure to technology, biotech and China compared with those with exposure to Latin America, India and Japan, which produced more modest returns.

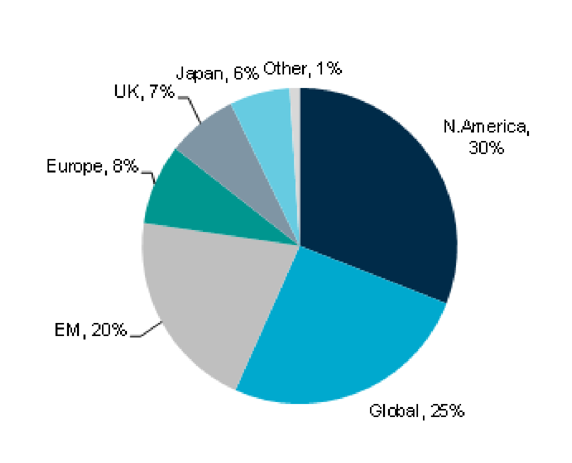
- Further capital was allocated to Morant Wright (exposure was 5.0% of net assets at 31 December 2019) as the managers continue to see attractive valuations within Japanese small and mid-caps. Additionally a new position was initiated with a manager targeting UK companies offering value and are likely to benefit from a more constructive domestic environment.

RIT Capital Portfolio by Asset Type



Note: Based on % net assets. Total sums to 98.8% and excludes liquidity. Source: Company data as at 31 December 2019

RIT Capital Exposure by Geography



Note: Total sums to 97%, excludes liquidity. Source: Company data as at 30 November 2019

- **Private Investments:** represent 25.1% of net assets, with 14.6% invested in third-party funds and 10.5% in direct holdings. Both portfolios delivered positive returns in 2019. Helios Towers listed in October at 115p, in line with carrying value, and was transferred to the quoted portfolio, closing at 158p at year end. RIT deployed additional capital to a number of new private investments, including a $50m investment into 'KeepTruckin', a US-based logistics business, $10m into Credit Karma, a US/UK financial data platform, as well as other investments in early stage growth companies. The largest direct investment is in preferred equity of Acorn Holdings via a co-investment alongside BDT Capital. Acorn is the coffee and soft-drinks subsidiary of JAB Holdings. Following the merger of Keurig and Dr Pepper Snapple, the majority of Acorn's interest is now in a quoted stock, Keurig Dr Pepper, which was up c.13% over the year. RIT Capital's key Direct Private Investments are shown below.

RIT Capital - Direct Private Investments

				Value £m		
Investment	**Country**	**Business**	**Date**	**Dec-18**	**Jun-19**	**Dec-19**
Acorn	Global	Coffee	2016	114.9	120.4	117.1
Coupang	Korea	Online consumer	2018	56.3	57.5	56.4
KeepTruckin	US	Logistics	2019	-	39.5	38.3
CSL	UK	Security alarms	2016	28.1	26.5	28.3
Infinity Data Systems	UK	Data centres	2011	14.5	12.7	12
Age of Learning	US	Education	n/a	14.4	10.5	9.8
Other Direct				31.2	47.3	69.8
Total Direct				297.8	362.5	331.7

Source: Company data

- **Absolute Return and Credit:** represent 22.9% of net assets. The aim of these investments is deliver *"stable returns through investing in strategies that are less correlated to markets".* During the period the fund made an investment in a loan note issued by LionTree, a fast-growing merchant bank focused on creative industries and the digital economy, financed through the issue of c.1.5m shares at a premium to NAV. The Board comments that they *"expect to continue to utilise the flexibility to issue new shares at a premium"* where it is in shareholders' interests. The managers have adjusted the portfolio to hold relatively low exposure to directional credit which they view as one of the least attractive asset classes from a risk-reward ratio, as a result of the combination of record corporate leverage, masked by ultra-low rates, and a significant proportion of unprofitable companies.

- **Dividend:** The Board intends to pay total dividends of 35p in 2020, an increase of 2.9% (1.0p) over the previous year. A dividend of 17.5p (17.0p) will be paid on 30 April (ex-date 2 April), with a second interim dividend of 17.5p (17.0p) in October. This represents a prospective yield of 1.8%.

- **Expenses:** The company's ongoing charges figure (OCF) was 0.68% in 2019 (0.68% in 2018). However, these figures exclude performance related pay, including LTIPs of £8.8m (0.29%), as well as external management costs relating to fees charged by third party managers. RIT Capital estimates that external fees are equivalent to 0.9% (1.03% in 2018) of average net assets (excluding performance incentives). RIT Capital's use of specialist third-party managers means that its "all-in" expenses are higher than most of its peers. However, we believe that the company's industry connections are crucial to its impressive track record.

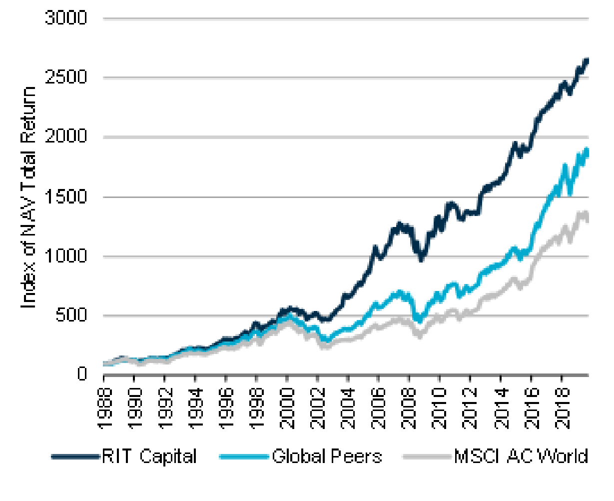
- **Manager Outlook:** Francesco Goedhuis (CEO) and Ron Tabbouche (CIO) are cognisant that interest rates remain very low, which for some investors, makes equities the *"only show in town"*, but they believe that a significant amount of good news is already priced in, and the market is unlikely to show resilience against any sustained macro or geopolitical volatility. The managers are more focused on managing risk and incremental equity investments are likely to be more selective than ever. Positioning remains cautious given the low growth outlook, mediocre corporate profitability, high valuations (particularly for high quality companies) and limited scope for further monetary stimulus. We understand that the recent sell-off has not changed the defensive outlook of the managers and they do not believe that equities offer widespread value. That said, they believe that some pockets of value are emerging and they may selectively add to special situations. The recent volatility has not changed the managers' views about the key structural growth trends within the portfolio: domestic China, Biotech and new Technology.

- **Numis Views:** These are the first set of annual results under the new Chairman, following Jacob Rothschild's transition to President, and represent a further step in a well-managed transition that has seen Francesco Goedhuis (CEO) and Ron Tabbouche (CIO) take over as leadership of portfolio management. Against this backdrop, it is positive to see that performance in the last couple of years been exactly what we have come to expect from RIT Capital over the long-term. In 2018, the fund provided some protection against falling markets, whilst in 2019 it participated in the upside of markets, whilst understandably lagging, given its cautious approach. Since inception in 1988, it has delivered an attractive return profile, participating in 73% of market upside, but only 38% of market declines. This has resulted in the NAV total return compounding at 10.9% pa, significantly ahead of global equity markets - the MSCI AC World and FTSE All Share have delivered annualised Sterling total returns of 8.6% and 8.2%, respectively. RIT Capital's exceptional long term track record has been delivered through an unconstrained investment approach seeking to deliver long-term capital growth, whilst preserving shareholders' capital. It is differentiated from most Investment Companies by being self-managed, but also by its active management of both equity and currency exposure.

- For some time, RIT Capital has been trading on a substantial premium to NAV and whilst we have remained impressed with the management team and believed the fund offers an attractive risk/return profile for investors, we felt like there may have been better times to add further exposure. The premium has now moderated and it is currently trading at around the NAV at 31 January, although this may been narrower given recent market falls. As a result, we believe that

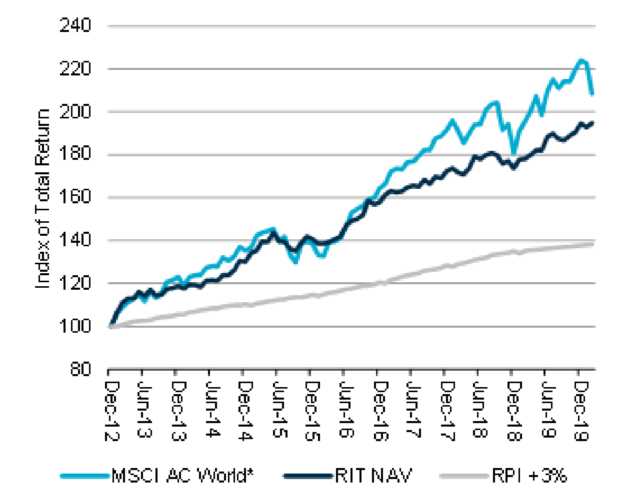
RIT Capital (£3.1bn market cap) offers attractive value and remains one of our core long term recommendations. We believe that the fund's emphasis on capital protection fits well with the risk tolerance of many private investors. In addition, we believe that the team, supported by its connections to leading third-party managers, is well placed to exploit opportunities that arise across a range of asset classes on a global basis.

RIT Capital - NAV Total Returns since Listing



Source: Datastream

RIT Capital - NAV Total Returns under Current Management



**50% Sterling, 50% local currency. Source: Datastream*