Bargain Hunter: ‘safe-haven’ trust is cheap and discount risk limited

03 November 2020

By Kyle Caldwell

Now could be a good entry point to take advantage of this trust’s wide discount.

To date, fears of a second notable stock-market correction in 2020 have not materialised, but there are plenty of headwinds on the horizon that could send markets into a tailspin in the weeks and months to come.

Headwinds keeping markets on edge include the investment implications of this week’s US election result, uncertainty over the shape and form that Brexit will take and the continued rise of Covid-19 cases.

For those investors erring more on the side of caution and looking to add some protection to their portfolios, now could be a good time to size up RIT Capital Partners (LSE: RCP).

The trust is one of a small number of “wealth preservation” investment trusts, which prioritise protecting investor capital. Three other trusts that invest in a similar fashion are Capital Gearing (LSE:CGT), Ruffer Investment Company (LSE:RICA) and Personal Assets (LSE:PNL).

Of the four trusts, both Capital Gearing and Personal Assets proactively adopt discount/premium control policies, which means that the board of each trust buys back its own shares to keep the discount/premium within a tight range. Therefore, investors are unlikely to ever pick up a bargain.

The other two cautiously managed trusts tend to buy back their own shares much more infrequently. Both are trading on discounts in excess of their 12-month averages, so look like potential bargains, with Ruffer trading on a discount of 4.3% and RIT Capital Partners offering a discount of 7.9%, to 2 November, according to Winterflood.

However, from a discount point of view, RIT Capital Partners looks the most attractive and not just because the discount is currently higher than Ruffer.

Last week, on 29 October, RIT Capital Partners bought back its own shares for the first time since August 2013. According to investment trust analyst Numis, the trust has historically bought back shares when the discount has approached 10% territory, but has not needed to do so for a number of years because the trust has typically traded at a small premium.

In an analyst note at the end of last week, Numis said: “We believe the trust offers a risk/return profile that should be attractive to a wide range of investors, although the discount volatility this year has been a concern for some. Therefore, we believe it is significant that RIT has engaged in a share buyback, which should provide some comfort to shareholders that the downside from the discount is limited.

“The shares are currently trading at 1,816p, representing a circa 9% discount to the September net asset value (NAV) and circa 8% discount to our estimated NAV, and we believe this represents an attractive buying opportunity.”

The trust reports its NAV only once a month, on or around the 15th of the following month.

RIT Capital Partners adopts a globally unconstrained investment approach and seeks to deliver long-term capital growth, while preserving shareholders’ capital. It invests across a range of asset class, both quoted and unquoted. Around a quarter of the portfolio is invested in the latter.

Lord Rothschild, who founded RIT in 1988 and drove its investment strategy for more than 30 years, stepped down as chairman last September. The trust is managed by Francesco Goedhuis and Ron Tabbouche. Numis notes that the duo have “now been together for seven years and the fund continues to demonstrate the same risk/return profile it has delivered over the long term”.

At the end of September, RIT Capital Partners’ NAV return for the year to date was 1.7%, but the share price total return shows a loss of 11.2%. At the start of 2020, RIT Capital Partners was trading on a premium of nearly 9%, so its move to a near double-digit discount has heavily weighed on the share price performance.

In early July, investment trust analyst firm Stifel observed that the bursting of RIT Capital Partner's "premium bubble" represented an attractive entry point. At the time the trust was trading on a discount of 7%.