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RIT Capital Partners: December 2021 update

In this December investment trust update, Investment Analyst Tom Mills shares our analysis on the manager, process, culture, cost, and performance of the RIT Capital Partners.

08 December 2021

- The trust is widely diversified and invests across a range of different asset classes
- It has a long-term approach and can invest in private markets, as well as public markets such as company shares
- The trust's managers aim to capture some market rises and offer some shelter to investors' capital when markets fall
- The trust has provided attractive levels of capital growth over the long term, although past performance is not a guide to the future

How it fits in a portfolio

RIT Capital Partners aims to deliver long-term growth, while offering some shelter to investors' capital when stock markets are weaker. The trust's managers do this by investing in a range of assets, such as individual company shares, private investments, equity and bond funds, real assets, including property and gold, currencies, and absolute return funds.

The trust could be an option for some modest long-term growth or become a conservative element of a broader portfolio. Investors in closed-ended funds should be aware the trust can trade at a discount or premium to Net Asset Value (NAV).

Manager

RIT Capital Partners launched in 1988 and is managed by J. Rothschild Capital Management (JRCM), making it one of the only self-managed trusts in its sector. It is made up of two committees and an experienced investment department to ensure everything runs as efficiently as possible.

JRCM's executive committee, led by CEO Francesco Goedhuis, has been together for nine years and the committee members are responsible for looking after the day-to-day management of the trust. The investment committee works closely with the broader investment team who source opportunities for the trust and generate recommendations for potential investments.

They meet on a weekly basis to discuss the suitability of the recommendations and make final decisions on what the trust invests in and its overall risk profile.

Ron Tabbouche, Chief Investment Officer, is a member on both committees and joined RIT in 2012. He was previously Head of Investments for Managed Portfolios at GAM. He has experience of running large investment strategies across a range of different investment types. Tabbouche can call upon the support of the in-house investment department for ideas, challenge or analysis, but can also use external investment managers to take charge of part of the portfolio and invest on the trust's behalf. We like the fact the trust is run by an experienced team and has the ability to call upon the support of external managers for additional insight and expertise.

Process

The investment team uses a distinctive ‘six cylinder’ framework to manage the trust and determine what they invest in. The idea is that different cylinders can drive the trust’s performance, depending on the economic picture, providing more consistent returns over time.

The first cylinder is used to help form a wider economic view, determine what level of risk can be taken and how the trust should invest. During times of uncertainty and volatility the investment team is more cautious which is reflected in the way the trust is currently invested.

The second cylinder focuses on investing with external equity managers. The team allocate a part of the trust, currently around 40%, to professional managers who invest in a portfolio of shares on the trust's behalf. In order for the team to justify paying external fees each manager must demonstrate high specialist expertise, show they are long-term focused and have high conviction in their views. Most of these managers aren’t available to other private investors which adds a potential advantage to the trust.

The third cylinder is made up of individual company shares picked by the in-house investment team. They source opportunities and form recommendations which are presented to the investment committee. Currently around 10-15% of the trust is invested in single stocks.

Having an experienced in-house investment team means they can comb through a wide investment universe, without paying external management fees and provide additional challenge to both investment decisions and external managers.

The fourth cylinder invests in different currencies including the US dollar, euro, Japanese yen and UK sterling. Currency positioning is used both to enhance returns, and to manage risk, for example by reducing the effect of a strengthening pound.

The fifth cylinder is made up of alternative investments that tend to perform differently to company shares and therefore provide true diversification. Roughly 19% of the trust is invested in alternative investments such as hedge funds, absolute return funds and emerging market debt. Investing in emerging markets increases risk.

Lastly, the sixth cylinder focuses on private investments - companies that are not currently listed on the stock market, and tend to be more difficult to buy and sell than listed shares. Private investments have always been a core feature and currently make up around 33% of the trust. The in-house team only invest in exceptional companies which offer compelling long-term growth potential. Currently this part of the trust is focused towards technology as the team thinks it offers good long-term opportunity. The team think that private markets can offer a more attractive way to invest in fast-growing companies before they reach public markets.

Gearing and derivatives can be used by the trust and can magnify any gains or losses. Investors should be aware that if used, each one increases risk.

Culture

The driving culture at RIT is its long-term focus, and alignment with shareholder interests. A key factor in how they achieve this is through the long-term investment by the Rothschild family, currently over 20% of the trust. Lord Rothschild has made it clear that this a core family holding and they intend to remain significant shareholders. This type of generational interest has been integrated throughout

RIT's culture and has encouraged shareholders to hold the trust across their own generations, sharing the long-term view.

In recent years, environmental, social and governance factors (ESG) have been an increasing focus for RIT. In February 2021, JRCM became a signatory to the UN Principles for Responsible Investment (PRI). In November 2021 JRCM published its responsible investment framework and policy, outlining its principles of responsible investment, and setting out how it implements these principles in its investment activities. We think this is positive and are pleased to see progress made in this area.

Cost

The ongoing annual charge over the trust's financial year to 31 December 2020 was 0.66%. Investors should refer to the latest annual reports and accounts and Key Information Document for details of the risks and charging structure.

If held in a SIPP or ISA the HL platform fee of 0.45% (capped at £200 for a SIPP and £45 for an ISA) per annum also applies. Our platform fee doesn't apply if held in a Fund and Share account.

Performance

RIT Capital Partners has a strong long-term track record. It's outperformed both its benchmarks over the long run, though over the past 10 years it has returned 160.27%* versus 278.40% for the FTSE World and 74.06% for RPI+3%. At the time of writing (1 December 2021) the trust traded at discount to NAV of -1.29%.

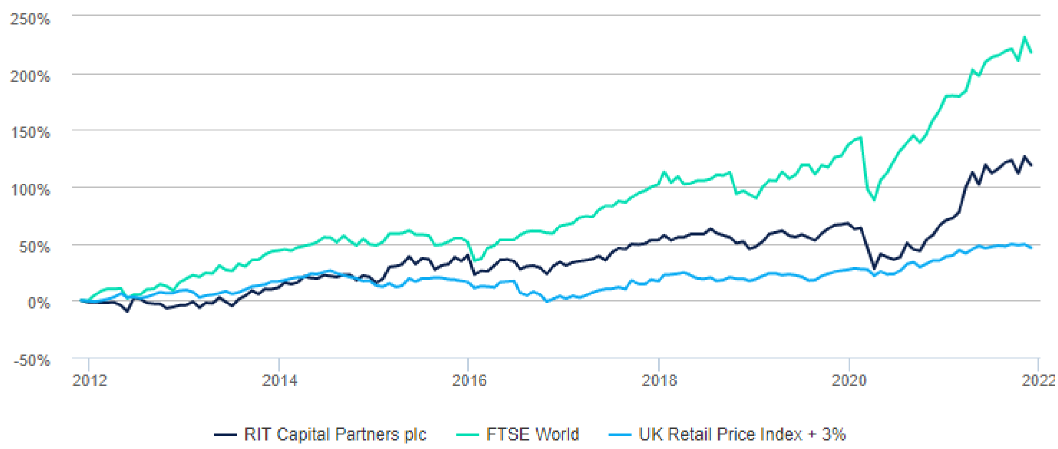
The trust does not aim to beat its benchmarks over the short term. Instead it tries to show strength when stock markets are weaker and provide modest growth over the long term. Equity markets have been strong over the past decade, and the trust has tended not to rise as quickly in this environment. Over the past year the trust has performed very strongly, rising by 38.60% compared with the FTSE World index's gain of 22.32% and the RPI +3% index's gain of 9.06%. Many parts of the portfolio contributed positively.

Private investments were a strong contributor to performance, including both direct and fund investments. South Korean e-commerce company Coupang was a particularly large contributor to the private investments cylinder. It became a public company in March 2021 and was transferred to the listed individual companies part of the portfolio.

Within the external equity manager cylinder, fund managers investing in overlooked businesses with the potential to recover, otherwise known as value-focused managers, performed well over the past year following several years of weaker returns. Many benefited from investments in commodity-related companies, which did well on the whole. On the negative side, managers investing in biotechnology companies, and those focused on China, were weaker performers.

The absolute return and credit cylinder also provided positive returns. Distressed credit strategies that invest in the debt of stressed companies performed particularly well, as government and central bank support in the wake of the pandemic bolstered many troubled businesses.

RIT Capital Partners plc performance over 10 years



Past performance isn't a guide to the future. Source: *Lipper IM to 30/11/2021.

Annual percentage growth

	Nov 16 - Nov 17	Nov 17 - Nov 18	Nov 18 - Nov 19	Nov 19 - Nov 20	Nov 20 - Nov 21
RIT Capital Partners	9.96%	4.70%	9.72%	-8.14%	38.60%
FTSE World	15.41%	5.95%	13.11%	11.32%	22.32%
UK Retail Price Index + 3%	6.88%	6.19%	5.25%	3.86%	9.06%

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