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Defend and diversify while RIT Capital is at a better price

Although equity markets have performed well since the March lows, the outlook for many companies is still extremely uncertain as countries emerge from the coronavirus pandemic. So it could be helpful to hold a wealth preservation fund such as RIT Capital Partners (RCP), which aims to provide long-term capital growth while preserving shareholders' capital. This investment trust was set up over 30 years ago to manage the wealth of the Rothschild family, and invests in various asset classes, geographies, industries and currencies, though has an equity bias. It invests in listed and private companies, and long-only and hedge funds.

Between its launch in 1988 and the end of 2019 it participated in 73 per cent of equity market upside but only 38 per cent of market declines. This resulted in its net asset value (NAV) total return compounding at 11 per cent a year up until the end of 2019. It has made positive NAV returns in nine out of the past 10 calendar years and good cumulative returns, beating broad indices, such as the FTSE All-Share, and the Flexible Investment sector average, according to Winterflood data.

Because of its good record the trust has largely traded at a premium to NAV over the past few years, at times hitting double-digit levels. But more recently it has fallen back, and at time of writing was on a discount to NAV of 3.7 per cent. So this could be a good moment to add RIT Capital Partners.

The trust de-rated because its share price fell 14.66 per cent over the six months to 30 June. However, its NAV only fell 4.36 per cent during this period – less than MSCI World Index's fall of 5.77 per cent. This shows that the trust's assets were relatively robust as markets fell.

"In a scenario of any renewed weakness in markets, the shares in price terms should perform relatively well compared with long-only equity funds, now that the premium has deflated," say analysts at broker Stifel.

And it looks well positioned to mitigate any volatility going forward – something highly likely due to the coronavirus pandemic and resulting economic disruption being far from over. During the sell-off earlier this year, RIT Capital Partners' managers deployed additional capital to credit where they saw attractive growth opportunities. “The managers remain cautiously positioned, although they have been adding selectively to credit [so] the fund is well placed to continue to deliver this type of return profile,” say analysts at broker Numis.

Because the trust invests in private equity, its NAV is only reported monthly and it can be difficult to estimate on a day-to-day basis. The trust also has quite high costs because its holdings include funds, some of which have performance fees. The trust’s annual report says that hedge funds typically charge a 1 to 2 per cent management fee, with a 15 to 20 per cent performance fee, and that private equity funds might have a 1 to 2 per cent annual charge and a 20 per cent carried interest above an 8 per cent hurdle rate.

RIT Capital Partners does not invest purely in equities, so it can lag these types of markets when they are rising strongly. And although its NAV returns have been resilient, its share price can be more volatile and as a shareholder it is the latter return that you get.

However, over the long term the trust has made good, positive share price returns. It doesn’t aim to outperform equities in rising markets, but rather preserve capital, which it has done very well. The trust has a reasonable ongoing charge of 0.68 per cent. While some of the funds it holds have quite high fees, good long-term returns suggest that the higher costs of these holdings have been worth the price.

So, if you have a long-term investment horizon and can tolerate short-term share price fluctuations, RIT Capital Partners still looks like a good way to help preserve the value of your wealth and diversify your portfolio with assets such as private equity and hedge funds that you can't buy directly. And it could be worth getting in while it is trading at a reasonable valuation. Buy.