J.P.Morgan CAZENOVE

17 April 2020

- **RIT Capital – March NAV/Letter to shareholders** - RIT has today announced its end March NAV of 1798pps (cum dividend) which shows a decline of 6.8% during March vs its reference index, the MSIC ACWI (50% £). This was down 11.9% in March while equity markets generally were off 15-25%. The managers were cautious heading into the crisis and had a net quoted exposure of 42%, at the lower end of the historic range. The managers are aiming to protect shareholder capital on the downside but still have good participation in upside markets, and achieved that during this most testing of months. The quoted portfolio did suffer from a bias to long term structural trends in EMs and from some of its more cyclical stocks. But healthcare holdings and equity hedge funds outperformed. The managers remain confident in their structural themes.

- While the direct PE portfolio will not be valued until 30/6/20, the portfolio has many capital protection features, and is in businesses that are relatively resilient. The PE funds are mainly now incorporated in the NAV at their 31/12/19 valuation, and these have been generally higher than 30/9/19 valuations that were used in the 31/12/19 year end NAV. Having spoken to the managers, RIT are not expecting a large impact on the next valuations given the resilience of many of the underlying businesses. Absolute return and credit demonstrated a beta of around 0.4 in March, slightly higher than usual as some managers in distressed credit areas experienced mark to market losses. But the macro allocations and credit hedges posted positive returns. A concern of ours had been the OW position to £ given its recent weakness, but we are relieved to see that the managers purchased $ at the start of March, capturing its strong rise. The managers are not looking to increase their equity exposure given the uncertainty of the economic impact of COVID-19, though they are on the lookout for opportunities, and did deploy some capital in credit markets.

- **J.P. Morgan View:** We welcome this update given the magnitude of recent market movements and are pleased to see that the NAV has held up relatively well, as illustrated by the charts below which shows performance relative to the reference index has improved in the drawdown. There *might* be a bit of downside to come from the private investments (about 25% of NAV), but this is likely to be very modest given the nature of the investments held, with a relatively high venture exposure in funds and the IT/e-commerce bias of the direct PE investments.

The reference index has bounced back by around 2.8% to last night's close, which means the NAV is likely to have made further progress since 31/3/20, but being conservative and assuming it is unchanged at 1780.5pps (now ex the 17.5pps dividend), the current price of 1858pps (@12.00) implies a premium of 4.3%. We think this is justified by the quality of RIT, but remain **Neutral.**