Numis

RIT Capital – March NAV provides some protection against market falls

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- RIT Capital Partners has released its March NAV of to 1,798p which was down 6.8% versus an 11.9% decline in the benchmark, the MSCI AC World (50% in Sterling).

- **Performance:** The company provided some insulation from the market falls due to its defensive positioning going into the crisis, illustrated by a net quoted equity exposure that averaged 42% in Q1, towards the lower end of its historic range. We understand from discussions with the manger that the detractors included Emerging Markets equity (22% of NAV at Feb-20), particularly exposure to India and Brazil, and more cyclical equity positions. In addition, the absolute return and credit allocation demonstrated a beta of 0.4 during the month, higher than usual, as distressed credit experienced mark-to-market losses. There were positive returns from macro and credit hedges. The managers' active approach to currency management contributed positively, with US dollars being purchased early in the month, following a sell-off, and subsequently benefiting from being seen as a safe haven by investors.

- The Private Investments are through both direct investments and third-party funds. The manager noted that direct private investments are generally performing well operationally and they highlighted that they typically structure investments with some downside protection, e.g. PIK interest. We note that Coupang (1.8% of net assets at Dec-19), the South Korean e-commerce business, recently reported reduced operating losses and more than c.60% revenue growth, on strong demand for home appliance and groceries. It has also seen strong demand during the coronavirus pandemic. The largest private investment is Acorn (3.7%), a global coffee and soft beverage company. The majority of Acorn's interest is in quoted-stock, Keurig Dr Pepper, which was down 13% in March in Sterling terms, but is up over 10% so far in April. Acorn was valued at 31 March in the NAV. There is a lag on the valuation on private fund investments and we understand that the majority are valuated based on December valuation dates.

- **Outlook:** The managers remain cautious on the outlook for equity markets and are not increasingly equity exposure given the uncertain economic outlook. They remain optimistic about the current portfolio and believe it has the potential to provide healthy absolute returns, with valuations providing a margin of safety. Additional capital has been deployed into credit market in March, where the manager sees opportunities for double-digit returns with strong protection.

- **Numis Views:** The March NAV shows a typical return profile for RIT Capital Partners which tends to provide reasonable downside protection in weak markets, whilst participating in the rising markets. The managers remain cautiously positioned, although they have been adding selectively to credit, and as a result, we believe the fund is well placed to continue to deliver this type of return profile. This has resulted in the NAV total return compounding at 10.5% pa, significantly ahead of global equity markets - the MSCI AC World and FTSE All Share have delivered annualised Sterling total returns of 8.3% and 7.6%, respectively. There are some valuation lags in the portfolio, with the majority of private assets valued at December 2019, but we note that private funds have a technology bias and the Nasdaq, down 4.6% ytd in Dollar terms, has been more resilient than wider markets (S&P 500 down 12.8% ytd).

- For some time, RIT Capital traded 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 briefly traded on a wide discount during the market stress in March. It is currently trading at 1,858p which a 4.4% premium to the NAV of 1,780.5p (March adjusted for the 17.5p dividend). We believe this offers an attractive entry points and RIT Capital (£2.86bn market cap) 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, especially in the current uncertain times. 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.