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RIT Capital – The March NAV

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By James Glass

Before I comment on RIT Capital's March NAV released this morning I would like to just remind of you RIT's Francesco Goedhuis Comments included in last month's final results ' As we enter 2020, we are cognisant that interest rates remain very low, which for some investors, makes equities the 'only show in town'. Our view is that a significant amount of good news is already priced in, and the market is unlikely to show resilience against any sustained macro or geopolitical volatility.' Crikey was he right as we have seen how the coronavirus pandemic has hit stock markets around the globe.

Thankfully for RIT shareholders, RIT also said 'after such a strong run in many of our structural themes we are, if anything, more focused on managing risk rather than adding exposure.'

Today RIT Capital has reported a NAV of 1798p for March which is a decline of 6.8% in the month and is a lower drawdown than the 11% fall in the MSCI All Country World Index (ACWI) measured 50% in sterling and 50% measured in local currencies and far wider falls in many other markets in March.

A similar pattern of reasonable protection on the downside together with capital growth over the long term can be seen over the last twelve months and three years respectively. Over twelve months, RIT's NAV total return was -3.9% compared to -8.5% MSCI All Country Index, while over the last three years, the NAV return was up +6.4% compared to the Index which was up +5.7%.

Net equity exposure has averaged 42% over Q1 2020 for RIT, which is at the lower end of its historical range. Helios Towers became a public company in October last year when the shares were priced at 115p. In March, the shares appreciated by 13% to 138.5p.

Following the rate cutting by the Fed, RIT has increased its US Dollar exposure both directly and through options. Whilst the dislocation seen in credit markets really captured RIT's eyes and additional money was put to work in that space, in a timely fashion which was smart, in my view, given the actions of central banks around the world.

RIT's private investments are typically structured with some element of downside protection. The largest underlying investment is Acorn (3.7% of December NAV), a global coffee and soft beverage company. Following the merger of Keurig and Dr Pepper Snapple, the majority of Acorn's interest is now in a quoted stock – Keurig Dr Pepper – which was off 13% in March in Sterling terms although is up over 10% so far in April. It is worth pointing out that, the quoted element of Acorn is valued quarterly and the latest valuation is at end of March hence taken into account in today's NAV release.

South Korean ecommerce business Coupang Corp (1.8%), very recently reported that its operating loss shrank by a third last year, helped by another year when revenues grew by more than 60% as it expanded its customer base and online demand for home appliances and groceries surged. Sales have jumped even more this year as demand spikes amid the coronavirus pandemic. In early March, Coupang said that since mid-February deliveries had climbed to 3m daily compared with around 2.2m per day late last year.

RIT Capital (£2.9bn market cap) remains one of our core long term recommendations within the Global Investment Companies sector. We believe that the fund's emphasis on capital protection fits well with the risk tolerance of many private investors. 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.