RIT Capital Partners plc – Ongoing Charges Figure / KID Methodology

1. Introduction

We believe that when investors decide to buy RIT shares, it is ultimately the net returns from owning those shares which are central to their decision. Since inception, RIT's distinctive investment approach has produced a participation of 73% of the market upside but only 38% of the market declines. This has resulted in our NAV per share total return compounding at 11.2% per annum, a meaningful outperformance of global equity markets.

RIT's published NAV is, of course, net of all of our costs. However, we understand that costs can form part of decision making. Recent legislation has resulted in a requirement to make new cost disclosures, which can be confusing when viewed in isolation. As part of our commitment to ensuring appropriate and helpful disclosure, we therefore provide this additional information to assist shareholders in understanding how these cost measures are calculated, as well as the differences between them.

In addition to RIT's Financial Statements, which include full details of its operating expenses, prepared in accordance with International Financial Reporting Standards and subject to annual audit, there are two supplementary measures of costs which we prepare:

- the Ongoing Charges Figure (OCF); and
- a cost and charges measure included within RIT's Key Information Document (KID).

2. Ongoing Charges Figure

As an investment trust, RIT is a member of the Association of Investment Companies (AIC), which has published guidance to member companies reflecting what it considers to be the most appropriate and helpful disclosure to shareholder in relation to costs – namely the OCF.

By recommending that investment trusts publish an OCF, the AIC is seeking to show the reduction in returns as a result of ongoing operational expenses, assuming the market remains static and the portfolio is not traded. In other words, if nothing happens, this shows the impact of ongoing costs on the value of your holding. As such:

- the assumption of a static market and portfolio means the OCF does not include either transaction costs or any performance-related amounts;
- the OCF uses one year's estimated ongoing costs (excluding non-recurring costs; for example, if the trust had undertaken a new share issuance, associated costs would be excluded);
- it is calculated as a percentage of average monthly net assets;
- the OCF focuses on operating expenses which are likely to recur in the foreseeable future and which relate to the operation of the investment company as a collective fund;
- It excludes borrowing costs, as the borrowings are deployed to enhance returns through gearing.

As RIT is a self-managed investment trust, the estimation of an OCF is more complicated than for a 'conventional' trust. The most recent OCF for RIT was estimated at 0.66% using the financial results for the year ended December 2020. This was published in RIT's 2020 Annual Report & Accounts.

In addition to JRCM and RIT's operating costs, RIT's longstanding investment policy includes the allocation of part of the portfolio to third-party managers, which have their own fees. These include long-only equity and hedge funds as well as private equity and absolute return and credit funds. The managers' fee structure is a key consideration in our investment diligence, with the decision made on the basis of expected returns, net of all fees.

As these funds are typically not available to the retail shareholder, they do not publish an OCF. To provide additional clarity for shareholders we have for a number of years estimated the annual management fee impact from investing in these funds, using agreed fee rates and the average capital invested in the funds. Consistent with the general OCF guidance, we use the funds' annual management fees and exclude performance-related amounts (such as performance fees or carried interest).

The average annual management fees for these external managers represents an additional 0.89% of average net assets. This is also published in RIT's Annual Report & Accounts.

Further information on these calculations, as well as fee structures and rates generally, is set out in RIT's 2020 Annual Report & Accounts on page 50.

3. Key Investor Document

As a result of European legislation effective January 2018 – the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation – JRCM is required to prepare a three-page KID for RIT's shares.

Following Brexit, the UK onshored the EU PRIIPS Regulation into the UK (the "UK PRIIPs Regime"), with minor divergences, the result of which is that the UK is able to amend the UK PRIIPS Regime to address concerns about the legislation. In July 2021, the FCA published a Consultation Paper proposing further amendments, which it plans will come into effect on 1 January 2022.

A copy of RIT's KID is available on its website.

Included within the KID are various required disclosures in relation to costs. These follow prescribed rules and are very different from the AIC's OCF. Key assumptions included in the KID costs are:

- they include the annual management fees incurred within third-party funds;
- the costs include interest on borrowings (measured over one year). When interest rates are low, if the borrowings are used to generate a return in excess of these costs, this will enhance the performance;
- they include transaction costs, i.e. the costs such as broker commission incurred when RIT buys or sells investments. These are estimated under the rules by taking three years of data using the difference between the market price at the time a trade is placed and the market price at the close on that day (which could be positive or negative); and
- they include all performance-related amounts, measured over up to five years. For example, third-party managers may charge a performance fee (or a carried interest for private equity funds) if they perform well and in excess of agreed hurdles. While in isolation this is a cost (i) it is only paid in a situation where the fund has performed well and (ii) the managers are only paid a minority share (typically up to 20%) of the outperformance, with the rest being received by RIT. Therefore, in a situation where a performance fee has been paid, RIT's performance has benefited. Similarly, JRCM

also incurs direct performance-related compensation (based on outperformance of the corporate KPIs: RPI and the MSCI All Country World Index – see RIT's Annual Report & Accounts for more detail), which is included in the KID.

As the funds in which RIT invests are not required to publish a KID, we have to estimate the costs for the KID. This can prove a challenge as there is a requirement for a five-year cost history even if, for example, the manager or fund did not exist for all of those five years. Here, we have to try and identify a 'surrogate' fund or 'proxy' index, together with an estimate of how the fund might have performed over the years before it existed, and what performance fee might therefore have been earned.

While these costs and charges are therefore estimates, it is important to reiterate that the actual costs will all have been deducted before RIT's performance is published; i.e. the NAV is net of all these costs.

4. OCF versus KID

The key characteristics of the two cost measures in terms of assumptions are summarised in the table below:

Factor	OCF	KID Costs
Nature of costs	Direct/Internal; **Actual**	Direct/Internal **Actual** Indirect/External; **Estimates**
Underlying data period	1 year	1 to 5 years
Market assumption	Static market; no performance	5-year average performance
Transaction costs	×	✓
Interest costs	×	✓
Performance-related amounts	×	✓

5. How costs and charges might be presented by other financial services firms

Most financial services firms through which you purchase RIT shares, for example wealth managers or share-dealing platforms, are obliged by regulations to show costs and charges information in a certain way. This typically involves showing all of their own charges in addition to RIT's "KID costs and charges" figure.

We understand from shareholders that the way this information is presented by some firms can be confusing. The firms may provide illustrations of the effect of costs in order to help investors see the impact. However, they can appear to suggest that RIT is taking charges directly out of your account, or that you need to deduct costs and charges from the share price return that you have received. This is not the case; only your service provider has access to your account and can deduct their own charges. RIT's costs and charges are already included in its NAV and share price performance.

6. Additional Information

In addition to the disclosures within the RIT Annual Report & Accounts, there are many other information sources available on the RIT website www.ritcap.co.uk. However, if shareholders have specific questions which they wish to ask, we would encourage them to contact investorrelations@ritcap.co.uk.

Notes:

1. All performance data is to 31 December 2020.
2. For further information on RIT's corporate objective, investment policy, approach, performance, KPIs, and fees see RIT's Annual Report & Accounts.
3. The above information is provided by J. Rothschild Capital Management Limited (JRCM), a wholly-owned subsidiary of RIT that acts as RIT's manager, administrator and company secretary. JRCM is authorised and regulated by the Financial Conduct Authority.