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Which defensive funds are working?

01 March 2022

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Important as it is to avoid making rash decisions in a sell-off, I can think of three big questions we should ask ourselves when markets get rocky.

1. Has the cause of the volatility, if obvious, undermined the investment thesis for any of your holdings?
2. Does recent performance suggest your portfolio is diversified enough?
3. And which defensive assets work when investors lose their heads?

The first two questions seem especially pressing for investors who may quite easily have allowed their portfolios to become overly skewed to some of the leading stocks, funds and sectors of recent years. But in the context of a rough 2022, I'd like to address the third question.

Reliable safe haven assets are incredibly hard to find, and a combination of inflation and tighter monetary policy do no favours for the best known of them all, government bonds. Another stalwart, gold, has made price gains in recent weeks but with bumps in the road. With more than enough uncertainty to go around, it makes sense if you don't wish to bet on just one option. But does a combination of different classic safe haven holdings still work?

To attempt an answer, let's turn to the four so-called wealth preservation investment trusts, which tend to try to defend your cash against threats using a combination of classic safe haven assets.

Ruffer Investment Company (RICA) has fared best so far: over the first two months of this year it had made a share price total return of 4.8 per cent. Personal Assets Trust's (PNL) share price total return was down

1.5 per cent, with Capital Gearing Trust (CGT) down by 2.7 per cent. Considering that all three have a portion of their assets in equities to keep returns chugging along, that's not bad at all. For context, MSCI World index was down 6.8 per cent over the same period in sterling terms, with the S&P 500 down 7.1 per cent. Thanks to its cyclical nature, the FTSE All-Share was in the red to the tune of just 0.6 per cent.

In the case of Ruffer, a glance at its end of January factsheet suggests it might have benefited from recent gains for gold and gold mining stocks, while a relatively high cash position may have left it less exposed to pain in the broader market. It also uses options, which can be one way to hedge against certain unwanted events.

The real outlier from the wealth preservation group, in two senses, is RIT Capital Partners (RCP). It is down 10 per cent so far this year in terms of its share price total return, according to FE. It's also the hardest of those four funds to analyse properly. While the first three names tend to invest in classic safe havens such as bonds (inflation-linked and conventional) and gold alongside shares, RIT Capital Partners has exposure to listed equities, absolute return offerings, credit and private companies. Some of the investments it holds can make big wins and losses, and there's a chance the downward share price movement reflects that potential for volatility.

Things may well come good for RIT Capital Partners' managers, and there's still plenty of reasons for the other three to make decent use of the likes of bonds. Either way, it's worth seeing how this pans out.