

# RIT Capital Partners plc

## Shareholder Disclosure Document

### March 2021

This document is intended to provide shareholders with specific information required by the Financial Conduct Authority (“FCA”) and European Securities and Markets Authority (“ESMA”) in accordance with the Alternative Investment Fund Managers Directive (“AIFMD”). While it is designed to assist investors, it is not intended to provide all of the information an individual should consider in making an investment and is not advice.

The document has been created by J. Rothschild Capital Management Limited (“JRCM”), a 100%-owned subsidiary of RIT Capital Partners plc (“RIT”) and its appointed Alternative Investment Fund Manager (“AIFM”).

#### **A description of the investment strategy and objectives of RIT**

RIT’s investment strategy and objective are encapsulated in its Corporate Objective and Investment Policy, which together represent its Investment Approach:

*“Corporate Objective: To deliver long-term capital growth, while preserving shareholders’ capital; to invest without the constraints of a formal benchmark, but to deliver for shareholders increases in capital value in excess of the relevant indices over time.”*

*“Investment Policy: To invest in a widely diversified, international portfolio across a range of asset classes, both quoted and unquoted; to allocate part of the portfolio to exceptional managers in order to ensure access to the best external talent available.”*

Under the UK Listing Rules (LR 15.4.8) RIT must obtain the prior approval of its shareholders to make any material change in its Investment Policy.

For further information see the “Our Strategy and Business Model” section of the latest Report & Accounts.

#### **A description of the types of assets in which RIT may invest**

RIT’s investment portfolio is unconstrained with the freedom to invest in multiple asset classes across industries and geographies. Typically, the portfolio will include allocations to quoted equities, (long-only funds, hedge funds and a direct stock portfolio), private investments, (direct private investments and private equity funds), absolute return and credit funds, real assets, government bonds and rates, currency and derivatives.

A portfolio breakdown is provided in the most recent Report & Accounts under the “Investment Portfolio” section.



## **The investment techniques that RIT may employ and all associated risks**

The most important objective is long-term capital growth while preserving shareholders' capital. The essence of RIT's investing DNA is about protecting and enhancing shareholders' wealth.

There may be times when RIT will deliberately place protection of shareholders' funds ahead of growth, but RIT believes that active management of equity exposure, combined with early identification of opportunities and themes, while investing across multiple asset classes, is more likely to lead to long-term outperformance.

RIT seeks, therefore, to display healthy participation in up markets, and reasonable protection in down markets. Over time, this should allow performance to compound ahead of markets throughout the cycles. Indeed, since RIT's listing in 1988, it has participated in 73% of the market upside but only 38% of the market declines. This has resulted in the NAV per share total return compounding at 11.2% per annum, a meaningful outperformance of global equity markets. Over the same period the total share return to shareholders was 11.7% per annum.

It is the investment policy which guides JRCM as it manages the portfolio. So, while RIT has a core equity bias, it typically invests the portfolio across multiple asset classes, geographies, industries and currencies. This has been the basis of RIT's approach over many years – combining thematic investing with individual securities, and private investments with public stocks. The long-term success of RIT has been drawn from a distinctive blend of stocks, private investments, equity funds, real assets, and absolute return and credit, all overlaid with currency positioning and macro exposure management.

RIT and JRCM believe that the extent of their global reach and unique network allows them to maximise their ability to deploy capital effectively. JRCM's in-house investment team works closely with RIT's core external managers, enabling RIT to invest in funds which may be closed to new investors, and cannot be accessed by a retail investor. In addition, this strong network provides access to intellectual capital, and co-investment opportunities. This aspect of the model is key to the ability to identify and deliver value from differing sectors, markets and assets. And while access to such specialist managers comes at a cost, it is an important part of the investment decision and, if warranted, RIT is comfortable paying that cost.

Above all, RIT's approach is long term. The permanent capital structure of an investment trust compared to open-ended funds, means RIT does not suffer from liquidity-driven pressures to fund redemptions. RIT can therefore hold its investments in both public and private markets over an extended period and choose to realise them at an optimum time.

Please refer to the sections titled "Our Purpose, Strategy and Business Model" in the latest Report & Accounts for further information.



## **Risks**

The principal risks facing RIT are both financial and operational. The ongoing process for identifying, evaluating and managing these risks, as well as any emerging risks, is the ultimate responsibility of the RIT Board and the RIT Audit and Risk Committee. Day-to-day management is undertaken by JRCM within parameters set by the Board.

As an investment company, RIT is exposed to financial risks inherent in its portfolio, which are primarily market-related and common to any portfolio with significant exposure to equities and other financial assets. The ongoing portfolio and risk management includes an assessment of the macroeconomic or geopolitical factors that can influence market risk, as well as consideration of investment-specific risk factors.

The RIT Board sets the portfolio risk parameters within which JRCM operates. This involves an assessment of the nature and level of risk within the portfolio using qualitative and quantitative methods.

Operational risks include those related to the legal environment, regulation, taxation and other areas where internal or external factors could result in financial or reputational loss. These are managed by JRCM with regular reporting to, and review by, the RIT Audit and Risk Committee and the RIT Board.

The RIT Board is responsible for the Group's system of internal controls and it has delegated the supervision of the system to the RIT Audit and Risk Committee. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, as such, can provide only reasonable and not absolute assurance against any material misstatement or loss.

Further information on the principal risks faced by RIT, the mitigation for these risks and the key controls in place is provided in the "Principal Risks & Viability" section and the "Audit and Risk Committee Report" of the most recent Report & Accounts. Further detail of the financial risk management employed by RIT can be found in the "Notes to the Financial Statements" in the latest Report & Accounts.

## **Investment restrictions**

There are no external restrictions on the allocation of assets to specific investments. As a listed Investment Trust, RIT is required to maintain a diversified portfolio to spread investment risk.

The RIT Board has established what it considers to be appropriate internal investment risk limits, which establish broad parameters for JRCM's investment management, including factors such as equity market exposure levels and size of individual positions. These are subject to a "comply or explain" approach; JRCM may exceed the limits with the approval of the RIT Board.

## **Circumstances in which RIT may deploy leverage and the types of leverage permitted**

RIT maintains structural gearing principally through fixed-rate private placement notes and revolving credit facilities. RIT may also use leverage through derivatives – typically currency forwards and options, equity index futures and options, as well as interest rate derivatives. Leverage from borrowings and derivatives is an integral part of portfolio and risk management for RIT. As is explained in RIT’s strategic aims, it differs from other trusts who aim to be fully invested in equities and who also may take a more passive approach to currency exposure.

The use of derivatives falls into two main categories:

1. **Hedging:** RIT has historically deployed derivatives to manage its exposure to market risk; more specifically in relation to price, interest rate and currency risk. The use of derivatives for hedging purposes is consistent with the capital preservation objective. The choice of derivative will be informed by the desire for efficient portfolio management and will typically involve options, futures, swaps and forwards.

For example, if it is considered there are short-term macro-economic factors which increase the risk to the broad market, but there is no wish to sell specific stocks, RIT may employ a short index future to reduce the equity market exposure or purchase put options on market indices.

Also, as a global investor, many of the shares that RIT owns are in foreign jurisdictions, exposing the Sterling Net Asset Value to currency translation risk. To hedge against this, RIT may employ currency forwards or options to reduce foreign currency exposure and increase Sterling exposure.

2. **Active Positions:** RIT will also deploy derivatives as part of general portfolio management in situations where they are the most efficient way to express an investment idea.

For example, in recent years when opportunities have arisen from specific market conditions, RIT has gained exposure to gold through the use of gold futures.

The use of derivatives, including their nature and size, is disclosed in the “Notes to the Financial Statements” in the latest Report & Accounts.

## **Risks from deploying leverage**

The use of leverage means that it can be possible for RIT to experience an investment loss greater than the amount it originally invested or placed as collateral with a counterparty. As a result, the leveraged instruments within RIT’s portfolio are very carefully monitored. As noted above, leverage is often used to hedge risk within the overall portfolio although it can also be used as part of efficient portfolio management.

## **Collateral and asset reuse arrangements**

RIT only uses cash as collateral and does not undertake securities lending or have any asset reuse arrangements in relation to collateral. RIT does not have a prime broker.

## **Restrictions on the use of leverage and maximum leverage**

The RIT Board oversees the use of leverage and imposes certain limits to ensure that the use of borrowings and derivatives is consistent with our Corporate Objective and Investment Approach. Compliance with these limits is reported to the RIT Board on a monthly basis.

In order to assess the potential impact on liquidity from losses stemming from derivatives, we perform a “Value at Risk” based assessment on RIT’s portfolio at least monthly to ensure that the business has enough cash to cover potential liquidity calls.

Under AIFMD we are required to calculate leverage using the two methodologies specified by the Directive, the ‘Gross Method’ and the ‘Commitment Method’, the difference being that the Commitment Method allows certain exposures to be offset or netted.

RIT has currently set a limit of 750% on the use of leverage based on both the Commitment Method and the Gross Method. RIT’s leverage calculated as at 31<sup>st</sup> December 2020 under the methods stipulated by AIFMD was 193% under the Gross Method and 141% under the Commitment Method.

These calculations are stipulated by the Directive and do not always reflect the manager’s view of risk. For example, with RIT’s NAV denominated in Sterling and ultimately seeking a Sterling return, the manager may deploy currency forwards to hedge the risk of loss from currency translation when investing in foreign denominated assets. One such example would be the purchase of a long Sterling currency forward against the US Dollar to remove the currency translation risk from holding a security denominated in US Dollars. However, the exposure from this currency forward would be included in both the Gross Method and Commitment Method in full, notwithstanding the reduction in currency translation risk.

## **Structure of investment and legal implications**

RIT is a UK investment trust and a public limited company incorporated in England and Wales. It has a single class of £1 ordinary shares, listed on the main market of the London Stock Exchange, which provides rights governed by RIT’s Articles of Association as well as general UK Company Law. Where new shares are issued, investors will be provided with terms and conditions prior to their subscription.

While investors acquire an interest in RIT on subscribing for, or purchasing, shares, RIT is the sole legal and/or beneficial owner of its investments. Consequently, shareholders have no direct legal or beneficial interest in those investments. The liability of shareholders for the debts and other obligations of RIT is limited to the amount unpaid, if any, on the Shares held by them.

There are no preferential share classes or preferential treatment of investors. As a company listed on the UK Listing Authority's Official List, RIT is required to treat all shareholders of a given class equally.

RIT's Articles of Association are available on RIT's website at [www.ritcap.com](http://www.ritcap.com).

## **Service providers**

### ***AIFM***

J. Rothschild Capital Management Limited, with registered office 27 St James's Place London SW1A 1NR, is the appointed alternative investment fund manager of RIT. JRCM is a wholly-owned subsidiary of RIT and is responsible for the discretionary portfolio management of RIT and exercising the risk management function.

In addition, JRCM performs certain administration, fund accounting and valuation services for RIT. As company secretary, its duties also include the arrangement of, co-ordination and preparation of board and committee meetings and papers; ensuring that packs provided for board meetings shall include required documents; and attendance and minuting of board meetings.

### ***Depositary***

RIT is required to appoint a Depositary and has appointed BNP Paribas Securities Services to this role. The key roles of the Depositary are:

- ensuring that RIT's cash flows are properly monitored, and that all payments made by or on behalf of investors upon the subscription for shares are received;
- safekeeping RIT's assets, which includes (i) holding in custody all financial instruments that can be registered in a financial instrument account opened in the Depositary's books and all financial instruments that can be physically delivered to the Depositary; and (ii) for other assets, verifying the ownership of such assets and maintaining records accordingly;
- ensuring that the sale, issue, re-purchase, redemption and cancellation of RIT shares are carried out in accordance with applicable law and RIT's articles of association;
- ensuring that the value of the shares in RIT is calculated in accordance with applicable law and the articles of association;
- carrying out the instructions of JRCM, unless they conflict with applicable law or the articles of association;
- ensuring that in transactions involving RIT's assets any consideration is remitted to the Company within the usual time limits; and
- ensuring that RIT's income is applied in accordance with applicable law and the articles of association.

RIT's depositary has not made any arrangements to discharge itself of liability under AIFMD. Should it do so, such arrangements will be detailed in this document. The depositary may not reuse assets of the AIF.

### ***Other service providers***

RIT's other service providers are detailed in the "Directory" section of the latest Report & Accounts and, in particular, the Auditor's role is outlined in the Independent Auditor's Report.

### ***Rights against third party service providers***

RIT is reliant on the performance of third-party service providers. Each shareholder's contractual relationship in respect of its investment in shares is with RIT only. Accordingly, no shareholder will have any contractual claim against any service provider with respect to such service provider's default. This is not withstanding the right a shareholder may have to bring a claim against an FCA authorised service provider under the Financial Services and Markets Act 2000.

### **Description of JRCM's management of professional liability risk**

Under AIFMD, JRCM is responsible for the portfolio management and risk management of RIT. In respect of such an appointment, JRCM has operational and financial arrangements in place in respect of professional liability risk. JRCM has adequate "own funds" under AIFMD to cover this risk.

### **Delegation by JRCM**

JRCM is responsible for the portfolio management of RIT. Part of RIT's portfolio is invested in funds managed by third parties. In certain circumstances, these are structured as segregated accounts. These arrangements are considered under AIFMD to be delegation of portfolio management. These arrangements are detailed in the Investment Portfolio section of RIT's latest Report & Accounts. No conflicts of interest have arisen in respect of these delegate arrangements.

### **Total return swaps**

Under the Securities Financing Transactions Regulation, JRCM is required to make available certain information about RIT's use of securities financing transactions and total return swaps. RIT does not make use of securities financing transactions but does employ total return swaps when it is considered efficient for the portfolio to gain notional exposure to an asset class via a total return swap rather than by direct exposure. Total return swaps could be used to hedge existing risks or for investment purposes, as described in the section above on the circumstances in which RIT may deploy leverage.

RIT's use of total return swaps is mostly in respect of single stocks or baskets of equities, however, consistent with RIT's investment objective to invest across a range of asset classes, there is no restriction to the underlying asset type and RIT may employ total return swaps in respect of fixed income indices or other investments. RIT may use total return swaps to gain both long and short exposure.

There is no specific limit placed upon the proportion of total return swaps in the portfolio but their use does increase RIT's leverage calculation and there are set limits on the use of leverage as described

in the section above on maximum leverage. The use of total return swaps will vary according to macroeconomic conditions, however, we would not expect the proportion to exceed a quarter of assets under management.

Total return swaps are executed with broker counterparties that are appropriately regulated in the UK, EU or US and of suitable financial strength (no minimum credit rating is stipulated but all total return swaps are executed with large, global brokers). Only cash is used as collateral and no reuse of collateral is permitted. Derivative contracts and collateral placed with the broker remain at the counterparty. 100% of returns generated by total return swaps are attributed to RIT.

Further information on RIT's risk management in respect of derivative instruments can be found in the "Notes to the Financial Statements" in the latest Report & Accounts

### **Further information available to investors**

The latest Report & Accounts, available on RIT's website at [www.ritcap.com](http://www.ritcap.com), includes information for our shareholders on the following areas:

- More detail on portfolio composition, including the liquidity profile of RIT's assets, some of which are illiquid in nature;
- Associated risks and corresponding risk management procedures, (including market risk, price risk, interest rate risk, currency risk, credit risk and liquidity risk management);
- Valuation procedures and pricing methodologies, including for those assets that are hard-to-value;
- Fees, charges and expenses and the amounts borne by investors;

The website also provides information on RIT's current share price, historical performance, latest monthly Net Asset Value ("NAV") and factsheets.

### **Periodic disclosures and updates to information**

JRCM must periodically disclose to shareholders certain information in relation to RIT, including RIT's assets that are illiquid in nature, arrangements for managing the liquidity of RIT and RIT's current risk profile and risk management systems. This information is provided at least annually in RIT's Report & Accounts.

Shareholders will also be notified on a regular basis of the total amount of leverage employed by RIT, if there are any changes to the maximum level of leverage which RIT may employ or the rights for re-use of collateral under any leveraging arrangements. This information will be made available by way of update to this document, at least annually or more frequently if required, or such other manner as JRCM and the directors of RIT determine appropriate.





**Disclaimer:** *This document includes the disclosure of information required under the Alternative Investment Fund Managers Directive, an EU Directive regulating “alternative investment funds” and their managers. The document has been produced by J. Rothschild Capital Management, a wholly owned subsidiary and appointed investment manager of RIT Capital Partners plc. J. Rothschild Capital Management is authorised and regulated by the Financial Conduct Authority.*

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