MoneyWeek

Invest in a promising new chapter at RIT Capital Partners

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By Max King

The long-standing chairman of the RIT Capital Partners investment trust stepped down in 2019, but the new team are doing very well, says Max King.

Everyone likes to think that they're indispensable. When Randolph Churchill resigned as chancellor in 1886, he expected to bring down the government. But his successor George Goschen did at least as good a job as he had done. Churchill's career and reputation was ruined and he later admitted: "I had forgotten Goschen."

So Jacob Rothschild may have mixed feelings about the success of RIT Capital Partners (LSE: RCP) since he stepped down as chairman in 2019. His family, who account for over 25% of the £4.2bn company, clearly benefit from the strong performance, but he may be put out that the management team are doing very well without him. Investment returns of 18% over the six months to June 2021, and 42% over 12 months, are among the best in the global sector and far ahead of the 12% and 26% returns of the MSCI All Countries index in sterling.

New investments delivering

RIT aims to deliver long term capital growth while preserving shareholders' capital. It seeks to outperform the relevant indices "over time", but expects to fall behind in rising markets. "RIT has slightly lagged the reference index over the last five years (to 30 June) but the volatility of performance and correlation to the index is low," notes Chris Brown, an analyst at JPM Cazenove. The trust's performance has accelerated in the last year, but its shares were still trading on a 6% discount to net asset value this week.

This acceleration is largely due to the success of private equity investments, which contributed 13% of the overall 19% return in the first half. Private equity accounts for 29% of the portfolio but this excludes Coupang, the Korean e-commerce company, which listed in March and surged 40% on its debut. It accounted for 9% of the portfolio at mid-year, though its share price dropped 13% in July. It contributed 5.5% towards the first half's overall performance.

There were several other positives in the private equity section, which includes exposure to funds as well as direct investments. A £29m new investment in stock trading platform Robinhood is doing well and the £50m investment in Webull, another trading platform in the US, looks promising. Rothschild's absence is not limiting RIT's access to good deals round the world; the management team are well connected and the Rothschild name is still a door opener.

The quoted equities portfolio, which accounts for 52% of the total, contributed 6% to the overall return. There has been a shift towards defensives, which might help reduce the volatility of returns, including consumer goods producers Unilever and Reckitt Benckiser. A further 20% of the portfolio is in absolute return and credit investments, which contributed 1.6% to the overall return.

The changeover from Rothschild to a younger generation has probably resulted in increased boldness in the decision making. It is hard to imagine RIT under Rothschild investing in Coupang or Robinhood, or allowing a gearing (debt to equity) ratio of around 10%. Clearly, management is positive about the outlook for the portfolio.

The only negatives are a tendency to over-hedge currency exposure into sterling (49% of the portfolio at the half year) which is costly when sterling is weak. At 1.6% fund costs are high, thanks to investment in third party funds, and there is also a management incentive scheme. These costs are an issue for many wealth managers who charge their clients additional fees, but direct investors should only be concerned about net performance, which is excellent.

My scepticism late last year was wrong. RIT should be a key building block of any investment trust portfolio.