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RIT Capital – NAV growth of 23.6% in 2021

28 January 2022

By James Glass

RIT Capital (£3.9bn market cap) has reported its 2021 Year End NAV was 2794pps. This was an increase of 3.4% in December.

For 2021 as whole, RIT has generated a NAV return of 23.6% on a total returns basis. This NAV performance has exceeded both of RIT Capital's KPIs being the inflation measure (RPI + 3%) of 10.5% and the equity index (MSCI All Countries World Index, 50% Sterling) of 20%.

The performance came from various parts of the portfolio but the private assets were once again a large driver of RIT's returns in particular South Korean e-commerce business Coupang. RIT Capital invests in the funds of some of the highest quartile PE/VC managers, but also co-investing alongside these managers. RIT Capital has a very powerful network and is skilfully led by Francesco Goedhuis and Ron Tabbouche. What is less appreciated, in my view, is the downside protection that RIT Capital builds into its private investments and the use of hedging. RIT Capital has never deviated from its focus on capital preservation, whilst still capturing some of the upside in appreciating markets. The NAV has historically participated in 74% of the market upside, but only 38% of the downside.

Of course, everyone is now talking about inflation. However RIT Capital were talking about this last Summer, which seems a long way ago given I cannot even remember Christmas thanks to Mr Market!! RIT said then "Stock markets are often characterised as reflecting expectations of the future. And yet, with some countries still experiencing extraordinary challenges from the pandemic, economies impacted by output constraints, and the risk of a sustained resurgence of inflation and higher interest rates, the medium-term outcome could be very different to the relatively benign one suggested by markets. We remain temperamentally disinclined to chase short-term liquidity-fuelled rallies and especially in periods of such uncertainty." It will be interesting to hear RIT's comments nowadays when the 2021 Annual Report is issued end of February/early March.

RIT Capital Partners is one of our core long-term recommendations. It is differentiated from most Investment Companies by being self-managed, but also by its active management of both equity and currency exposure. The portfolio remains defensively positioned and we believe RIT Capital fits well with the risk tolerance of many private investors. This is reflected by net quoted equity exposure averaging 43% in 2021. The Quoted Equity portfolio includes long-only funds, hedge funds and a direct stock portfolio. The emphasis within the equity portfolio is increasingly on investments where value creation is driven by an identifiable catalyst or which are exposed to longer-term positive structural trends, notably the impact of new technologies and Asian consumer demand.

Last year, the strong performance generated throughout 2021 from RIT Capital saw the discount reduce significantly with the shares in fact trading back on a premium, a rating warranted. As I said multiple times last year, the discount on RIT Capital reflected a difference between perception and reality in my view. As one will be aware, we have just gone through a period of "fast markets". YTD2022 the Index is off 7.2%, and incorporating this into RIT's quoted equity exposure gives us an adjusted RIT Capital NAV of 2704p. RIT Capital's shares have fallen by more than 9% YTD2022. This leaves the shares on a discount of nearly 8% which doesn't really make sense. We believe RIT Capital is well positioned for the current environment and would view this nonsensical situation very much as a buying opportunity.