J.P.Morgan CAZENOVE

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RCP Interims

- **RIT Capital Partners (RCP) – Interim results** – The NAV TR and TSR for the six months to 30/06/18 were 3.2% and 6.2% respectively, both ahead of the Sterling TR from MSCI ACWI (+1.4%) and RPI plus 3.0% (3.2%). The strongest positive contributions came from private investments, driven by technology holdings, in particular absolute return and credit strategies and currency with RCP a beneficiary of a stronger US dollar. There has been relatively little change in the asset allocation in the first half of 2018. As a percentage of 30/06/18, NAV the main exposures are Quoted equities at 57%, Private investments 22%, & Absolute Return & Credit 23%. The net equity exposure (which takes into account derivatives) was 47% at 30/06/18. The main currency exposure at 30/06/18 was 53% Sterling, 29% US dollar. Net gearing at 30/06/18 was 16.7% of NAV, up from 13.0% at 31/12/17.
- RCP pays a semi-annual dividend and has declared a 16.5pps dividend to be paid in October (+3.1% yoy). The annualised yield is 1.6% on the current share price. RCP currently trades on an 8.9% premium to NAV, according to Morningstar figures.
- **J.P. Morgan View**: H1 18 has been strong for RCP with its NAV TR ahead of MSCI ACWI and the RPI+3% measure to which it also compares performance. Looking back at five-year figures shows the NAV TR has lagged quoted markets but RCP's focus is on long-term capital growth, while preserving capital. It has a strong track record on a risk-adjusted basis having captured significantly more of market upside vs downside since its 1988 inception (75% vs 39% at 31/12/17). The low beta to MSCI ACWI in the past five years (0.25) demonstrates positive diversification benefits for investors also.
- While it is a self-managed company, RCP does pay fees to third-party managers and there is also carried interest among other costs. Ongoing costs are likely in the region of 2% p.a. and the performance fees and carry add another 1.8%, according to the KID. But of course the NAV TR is net of all those fees. The core model of a strong in-house team, augmented by specialist asset managers elsewhere, is attractive, in our view. The shares are currently trading at a significant premium to NAV, around 9%, which is high relative to the historical average. For that reason we remain **Neutral**.

RIT Capital Partners plc