J.P.Morgan CAZENOVE

5 March 2019

RIT Capital Partners – Finals

RIT Capital Partners (RCP) today announced its interims for the year to 31/12/18. The key points were as follows:

- **Investment 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; to invest in a widely diversified, international portfolio across a range of asset classes, both quoted and unquoted and to allocate part of the portfolio to exceptional managers in order to ensure access to the best external talent available. The in-house team of 44 at J. Rothschild Capital Management Limited (JRCM) is led by Chairman and CEO Francesco Goedhuis and CIO Ron Tabbouche, with Andrew Jones as CFO and Jonathan Kestenbaum as COO. Lord Rothschild is the Executive Chairman of RIT Capital Partners, who has an 18.45% interest via family charitable foundations, companies or trusts. Net assets at the year end were £2,830m.

- **Performance**: The fully diluted NAV (debt at fair value) at the period end was 1821pps, as already reported on 5/2/19. Over the year to 31/12/18, the NAV TR and TSR were 0.8% and -1.0% respectively. The reference indices of RPI +3% and the MSCI ACWI (50% £ and 50% in local currencies) returned +5.7% and -5.8% respectively. The attribution table below shows that the main contributor was from the Private Investments portfolio (+4.9%, with funds and directs both performing well, with call outs for Acorn and Coupang in directs and Thrive Capital, the US venture fund) and currency (+2.2%). We note that the private fund valuations are based on September 18 valuations, so there might be modest downside to these in due course. Unsurprisingly, the main negative was from quoted equities, with the OW Asian positions and resources the main drag, but value was protected by a cautious stance in Q4 18, with the managers, for example, redeeming 10% of long only and equity hedge funds in 2018. The managers added to EM on the back of weakness. A number of idiosyncratic opportunities presented themselves in the credit market, while gold provided a useful hedge in Q4. The stronger dollar vs the pound was also a big contributor in the year.

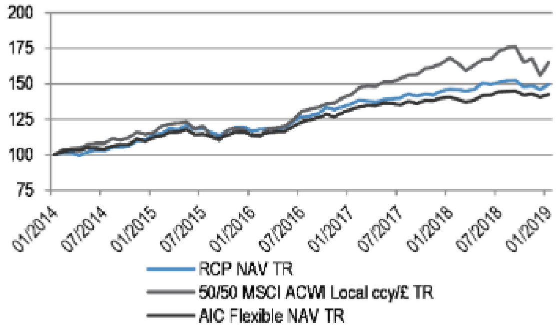
- In Figure 5 & Figure 6 below, we show RCP's NAV performance relative to its equity reference index and AIC Flexible Investments sector peers over the five years to 31/1/19 (the last official NAV date) over which it is behind the reference index by 9% and ahead of its AIC peers by 5%. But the annualised NAV TR vs the MSCI ACWI is 3.2% p.a. with a beta of 0.46. Over the last five years and ten years the NAV TR has been 44.8% and 111.1% respectively vs 30.3% and 170.8% respectively from the custom MSCI reference index.

Table 2: Exposure and contribution by asset class

Asset Class	31/12/2018 % NAV	2018 Contribution	31/12/2017 % NAV	2017 Contribution
Quoted Equity	47.0%	-6.3%	55.6%	9.1%
Private Investments	25.7%	4.9%	21.8%	2.6%
Absolute Return and Credit	23.7%	0.5%	25.0%	1.6%
Real Assets	3.1%	0.1%	3.5%	0.9%
Government Bonds and Rates	0.5%	0.4%	0.2%	-0.2%
Currency	-0.3%	2.2%	1.0%	-4.3%
Total Investments	99.7%	1.8%	107.1%	9.7%
Liquidity Borrowings and Other	0.3%	-1.0%	-7.1%	-1.5%
Total	100.0%	0.8%	100.0%	8.2%
Average net quoted equity exposure	47.0%		44.0%	

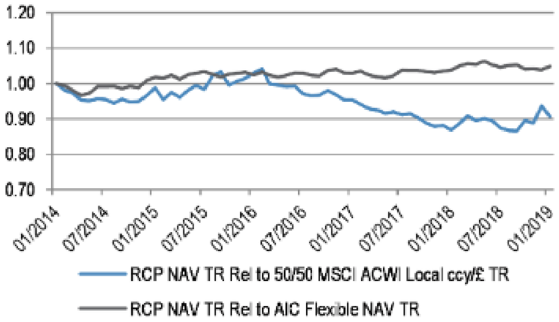
Source: Report and accounts

Figure 1: RCP NAV TR for five years to 31/1/19



Source: Refinitiv Datastream

Figure 2: RCP NAV TR relative to benchmark and AIC peers to 31/1/19



Source: Refinitiv Datastream

- **Portfolio**: The table below shows the holdings representing more than 3% of NAV. These are a combination of third party funds and co-investments. The quoted equity portfolio is the largest component of the portfolio at 47% of NAV (net) and comprises 28% Hedge Funds, 27% stocks and 45% long only equity funds. Of the 25.7% in Private Investments at the year end, 11% is in directs and 15% in funds. Directly held private investments are valued at between 5-11.1x EV/EBITDA.

Table 3: RCP Investments >3% of NAV

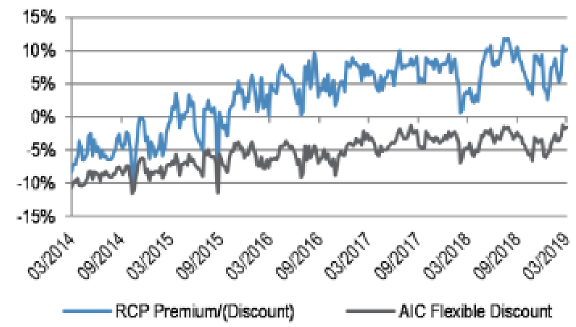
Name	Bucket	Region	Strategy	% of NAV
Eisler Capital Fund	Absolute Return and Credit	Global	Macro	5.2
Acorn	Private Investments - Direct	Global	Consumer Staples	4.1
Attestor Value Fund	Absolute Return and Credit	Global	Distressed/Spec Sits	4.0
Morant Wright	Quoted Equity - Long Only (seg account)	Japan	Small/Mid Cap value	3.9
HCIF Offshore	Quoted Equity - Long Only	US	All cap biotech	3.9
CSX Corporation	Quoted Equity – Direct co-investment	US	Industrials	3.7
Elliott International	Absolute Return and Credit	Global	Multi-strategy	3.5
Thrive Capital Funds	Private Investments - Funds	US	Venture Capital	3.1
BlackRock European Hedge Fund	Quoted Equity - Hedge Funds	Europe	All cap diversified	3.1
Martin Currie Japan	Quoted Equity - Hedge Funds	Japan	All cap diversified	3.0
BlackRock Emerging Markets	Quoted Equity - Long Only	EM	All cap value bias	3.0
Total				**40.5**

Source: Report and accounts

- **Dividend**: RCP has declared dividends totalling 33pps in the year, up 3.1% yoy and paid in two equal instalments, using accumulated capital profits given that revenue earnings were -1pps, reflecting most of the operating expenses of £28.6m being charged to revenue. The yield is 1.6%.

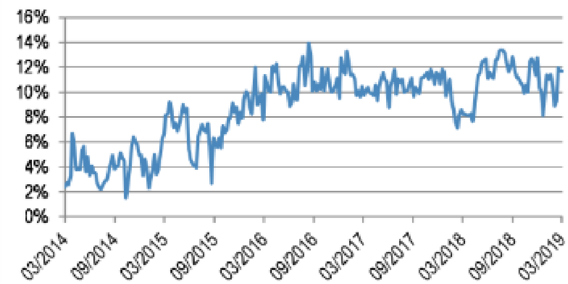
- **Discount**: RCP does not have a formal DCM, but as the chart below shows has traded at a premium rating over much of the last five years. The shares also continue to trade at a material premium to their peers.

Figure 3: RCP (discount)/premium over five years to 4/3/19



Source: Refinitiv Datastream

Figure 4: RCP (Discount)/premium relative to AIC sector average



Source: Refinitiv Datastream

- **Gearing**: Borrowings were £430m at the year end at an average cost of 2.8%. Cash was £211m. Gross gearing was 11.5%, but net gearing was effectively zero taking into account cash and hedges. The average net quoted equity exposure during the year was 47%. Undrawn commitments are £294.7m.

- **Management fees**: Direct ongoing charges are 0.68% ex performance fees. The managers estimate that in addition there is 1.03% of fees on third party funds, ex performance fees. RCP also operates share-based rewards dependent on the achievement of certain KPIs. The KID, based on the 2017 R&A, shows an RIY of 4.17%, made up of 0.66% direct fees, underlying base fees of 1.16% net of rebates, gearing costs of 0.46%, performance fees of 1.43% and carried interest of 0.38%. The latter two items are of course dependent on performance, but the KID looks at them over the last few years.

- **Outlook**: Lord Rothschild describes 2018 as the "most difficult and treacherous year for investors since 2008, with negative returns in all major asset classes". He anticipates a continuation of heightened market volatility and reiterates that capital preservation will be a high a priority for RCP. Despite the caution, he continues to see specific opportunities across equity and debt markets, but will seek to ensure that new investments provide a 'margin of safety' in terms of valuation. On private investments RCP seeks to structure investments with an emphasis on downside protection.

J.P. Morgan View

- RCP had a very strong 2018, with a small positive NAV TR in the face of steep falls in equity markets. The team made some shrewd currency calls and lightened equity exposure ahead of the Q4 18 declines, but also used the weakness to make some new investments.

- While over the last five years RCP has lagged its equity reference index by 9%, this is an impressive performance, in our view, given the low quoted equity exposure and this is borne out by the alpha of 3.2% over the same period.

- RCP remains highly differentiated from most peers on accounts of its size, high quality and stable in-house management team and expertise across a wide range of assets classes. It is in effect a quoted family office, in this case primarily being responsible for the Rothschild family assets. However, this does not come without costs, with look through OCs ex performance fees of 1.7% pa, but we would argue that for the direct and indirect expertise on offer and the high percentage in alternatives and absolute return investments, this is not unreasonable, and of course the impressive NAV performance is net of all 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% according to Morningstar estimates, which is high relative to the historical average. For that reason we remain **Neutral** (price 2050p @10.45).