J.P.Morgan CAZENOVE

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- **RIT Capital Partners (RCP) – Interims** – RCP today announced its interims for the six months to 30/06/19. The NAV at 30/6/19 of 1958pps (fully diluted) was in line with that already reported last month and over the six months to 30/06/19 the NAV TR and TSR were 8.5% and 10.1% respectively vs a TR of 16.3% from a 50:50 composite of the MSCI ACWI Total Return Index Net in Local Currencies and the same index in £. Returns exceeded RPI +3% was 2.9% for the half year. These are reference indices as RCP does not have a formal benchmark. The majority of the return (7.8%) came from the average net quoted equity exposure of 45% (ending the period at 44% vs 47% at 31/12/18), which implies a better than benchmark performance. The return from the private investments was quite muted, with a contribution of 0.7% from the 26% allocation. Single stocks performed well, as did Chinese investments, where exposure had been increased. The absolute return and credit assets generated positive returns while the gold-related assets also appreciated. Currency overlays were a negative, costing 0.7%, with the managers cutting the dollar exposure from 30% to 16% of NAV over the period and increasing sterling from 44% to 56%. Charts in the note show RCP's NAV TR over five years to 02/08/19 over which it has underperformed the 50/50 reference equity index but has outperformed the AIC Flexible Investment Sector (ex TFG) by -8% and +5% respectively. On a risk-adjusted basis the annualised alpha has been +4.8% with a beta of 0.35 vs the blended reference equity index.

- RCP deployed additional capital in some new private investments, including ‘Keep Truckin’ a US-based logistics business, as well as other early stage growth companies and funds giving exposure to US and Asia. The managers reduced the dollar exposure in the expectation of the Fed lowering interest rates. Lord Rothschild remain cautious with net quoted equity exposure of 43% and private investments of 26%. The team is concerned about high valuations during a time of higher geopolitical risks, trade wars and weaker economic growth. As a result they are seeking to invest in situations where there is a degree of protection, or in areas where there is structural growth. Outside equities they are looking for uncorrelated strategies.

- The first interim dividend was 17pps. A second interim dividend will be paid in October and will make a total 2019 dividend of 34pps, up 3% yoy. RCP does not have a formal discount control mechanism, but as the charts below show consistently trades at a premium to NAV. Gearing at 30/6/19 was 5.8%, down from 11.5% at 31/12/18. Average net equity exposure was 45%, but was 43% at the period end. Direct ongoing charges for the most recent full year to 31/12/18 were 0.68% ex performance fees. The managers estimated that, in addition, there were 1.03% of fees on third-party funds, ex performance fees for 2018.

- **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, so it should not be terribly surprising that given their cautious positioning and a powerful bounce back in equities in H1 2019 that they lagged behind the equity markets. The underlying net quoted equity portfolio appears to have performed well, however. The only real misstep seems to be the decision to reduce the USD exposure and increase sterling, which will have been costly during July. Overall, however, to be lagging global equities by just 8% over the last five years is a great result in our view, particularly given the low beta of 0.35.

- RCP remains highly differentiated from most peers on account 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 6.2% the last published NAV, before factoring into account negative currency movements. For that reason, we remain **Neutral**.