26 March 2022

Overview

RIT Capital (RCP) aims to generate long-term capital growth, but also to protect shareholders' capital. The managers invest in a broad range of asset classes – both directly and through third-party managers – which are expected to deliver returns in a range of different market conditions. As well as portfolio construction helping to reduce risk through diversification, the team can bolster risk management through various hedging strategies. It is this approach, and the underlying funds that RCP is exposed to, that makes RCP a very different beast from many other multi-asset funds.

Overall, RCP has tended to exhibit relatively defensive qualities. For example, over the last five years, the NAV beta relative to the MSCI ACWI has been 0.72, NAV volatility of 8.7% compares with the MSCI ACWI of 12.2%, and RCP's maximum drawdown is 10.2%, compared to the index's 16% (all statistics from Morningstar). RCP provides a statistic that, since inception, the trust has participated in 74% of market upside, but only 38% of market declines since inception.

The last two years have been particularly strong for RCP in NAV terms, in which the trust has (perhaps uncharacteristically) outperformed during strong years for equity markets (see Performance). We understand that much of this is attributable to the private investments sleeve of the portfolio. The team made a conscious decision several years ago to invest in the digital transition theme through private investments, correctly anticipating that this would allow the trust to benefit from "a typically longer duration value creation cycle".

The KID Reduction in Yield is 4.85%, including 2.7% of performance fees. RCP announces NAV's monthly, and the shares currently trade on a 4.5% discount to the 28/02/2022 NAV.

Kepler View

RCP now has net assets north of £4bn. This fact, and RCP's heritage and continuity of the senior team, means the trust provides access to an unrivalled network of contacts and relationships which provide investment opportunities outside the grasp of many investors. The evidence for this comes not only in the long-term track record of providing strong risk-adjusted returns, but also the contribution to returns from private investments which have been particularly evident over the past two financial years.

RCP's strategy is one that aims to harness alpha to generate stronger risk-adjusted returns over the long term. RCP has a broadly spread and diversified portfolio, aiming for a number of independent drivers of returns (more detail on this in the Portfolio section). At any one point, the managers hope that one or more of these 'cylinders' is firing, making returns more consistent than the equity markets, but delivering strong returns overall. Having captured plenty of value in the past two years from an astute decision several years back to invest in private technology companies, it may be that other parts of the portfolio are called on to perform in the current year.

RCP's shares have traded on a premium for a significant part of the last five years. However, RCP moved to a discount in the turbulent market conditions of Q1 2020, which saw indiscriminate selling pressure, and it has not yet regained a premium rating. If uncertain market conditions remain, investors’ appetites may return to more defensive strategies such as RCP, and the current discount could revert to a premium (the average for the past five years is a premium of 2.2%).

Bull

Highly-diversified portfolio, offering access to a full range of asset classes and many soft-closed or inaccessible managers

Long-term performance track record, which has seen the trust protecting capital well in falling markets and delivering strong cumulative returns

Unique approach, with very few comparators in either closed or open-ended fund worlds

Bear

Monthly NAV announcements mean it is hard to ascertain what the current discount (or premium) really is

Higher costs than a typical fund, but – then again – this is not a typical fund

Opaque portfolio may not give granularity of underlying exposures that some investors may want