# It's a family affair

**RIT Capital Partners and Caledonia value the preservation of family wealth above all, so five-year returns of around 70% from both trusts is pretty good going. Cherry Reynard assesses their distinctive investment approaches**

The old proverbial saying 'shirtsleeves to shirtsleeves' cautions the wealth gained by one generation will be lost by the third. But when a family has managed to preserve significant wealth over multiple generations, it is worth looking at how they do it. This is the case with two of the oldest and grandest investment trusts – **RIT Capital Partners** (RCP) and **Caledonia** (CLDN).

Both trusts need to meet the needs of multiple generations. In the case of RIT, it is the wealth of the Rothschild family; Caledonia is the main investment vehicle for the Cayzer shipping family. This means their investment approach is not racy: when people have amassed huge wealth, they are generally reluctant to let it go. Capital preservation sits at the heart of these trusts' investment philosophy.

Lord Jacob Rothschild

> "RIT Capital has a very broad range of investments and is focused on long-term capital growth"
> **Peter Walls**

## RELY ON DIVERSIFICATION

Neither aims to achieve the goal through the classic blend of equities and bonds. Both are relying on diversification and a broad asset mix to deliver this capital preservation. Both trusts take a 'family office' approach, investing across multiple asset classes – including private equity, hedge funds and 'real' assets such as infrastructure – while paying close attention to risk.

Both funds make widespread use of unquoted stocks. While such assets have come under scrutiny in the wake of the Woodford scandal, the closed-ended structure and committed shareholder base of these investment trusts mean they can bear the liquidity risk and the private equity portfolio has been a strong and consistent source of returns for both trusts.

With wealth comes connections and these trusts have them in spades. Both trusts make use of their extensive network to access hard-to-reach private equity deals or hedge funds that aren't available to the majority of people. For RIT, for example, nine out of 10 of the third-party hedge funds it holds are closed to external capital.

The family connections help in other ways. Caledonia in particular will often take large stakes in local family businesses. These family businesses are often reluctant to bring in traditional private equity managers, who may only be interested in maximising profitability ahead of a sale. They prefer the oversight and governance another family business can offer.

Their approach is likely to resonate with many ordinary investors who want growth in their investments, but without the wild ride. Performance, in both cases, has been strong: in general, they have delivered far better than many of the 'absolute return' funds that have stolen their marketing message, but not matched their consistency.

Over five years, RIT is up 72.5% and Caledonia is up 64.2% in share price terms, though the latter has the edge in net asset value (NAV) terms. Both have delivered this return consistently over time, aiming to minimise losses for investors.

The family backing is important. For Caledonia, the extended Cayzer family owns around 48% of the trust. For RIT, the family holding is lower, but in both cases it brings stability to the trust. If 'skin in the game' is important to investment trusts, a family-owned trust has more of it than most.

**STEADY APPROACHES BEAT RIVAL TRUSTS**


## ROTHSCHILD QUALITY STAMP

Just as the Rothschild name adds a certain cachet to a bottle of wine, it adds a quality stamp to an investment trust. It also attracts a premium price. RIT has typically traded at a 5-10% premium to NAV. Its fees are also a touch higher than its competitors, but this may be a reflection of the type of underlying investments.

Peter Walls, manager of the open-ended fund Unicorn Mastertrust, says: "The key thing we pull out of the research is that investors typically participate in 74% of the upside and 39% of the [global stockmarket's] downside. It has a very broad range of investments and it is focused on long-term capital growth. That's why people like it."

It reaches parts of the market others won't reach. Walls adds: "There is a network effect. The managers get opportunities that other people don't – in hedge funds, in private equity, in niche investments. It is a family office type arrangement."

The trust invests across four main areas: the total equity exposure has averaged 47% over the past year, comprising long-only equity funds at around 25%, hedge funds at around 15% and the remainder in direct equity. The next largest chunk of the portfolio is in private equity at 25%. Absolute return and credit strategies is another 24%, around 10% in direct investments and 15% in funds. The fund also has small investments in governments bonds, derivatives and real assets.

The idea is that one of these areas will be firing at any given time. The trust's managers believe that this diversification

## HOW THESE FLEXIBLE SECTOR TRUSTS COMPARE

| | Caledonia | RIT Capital |
|---|---|---|
| Launch date | July 1960 | Aug 1988 |
| Total assets £ | 2.02bn | 3.38bn |
| Net gearing % | 0 | 11 |
| Current discount to NAV % | -15.7 | (+) 9.9 |
| 3-year share price return % | 47.3 | 36.9 |
| 3-year NAV return % | 38.6 | 28.9 |
| 5-year share price return % | 61.3 | 74.5 |
| 5-year NAV return % | 56.9 | 49.5 |
| Yield % | 1.9 | 1.6 |
| 5-yr dividend growth % | 3.2 | 2.6 |
| Ongoing charge % | 0.93 | 0.68 |

Data as at 26 June 2019. Source: AIC/Morningstar

is a more effective way to preserve capital than the standard bond/equity split, which – in an era of quantitative easing – has been becoming less effective. It has consistently delivered stronger than equity market performance with lower risk, with long-term compound growth of around 10-12% per year.

Lord Jacob Rothschild stands down as chairman from September this year, though will remain as president. Simon Elliott, head of investment trust research at Winterflood Securities, says he has been an important part of the trust's success. Nevertheless, he has an equally illustrious successor in Sir James Leigh-Pemberton, son of former governor of the Bank of England Robin Leigh-Pemberton and former head of Credit Suisse's UK business. He is also a trustee of the Duke of Cornwall Benevolent fund. Like Rothschild before him, it can be assumed that he has friends in high places.

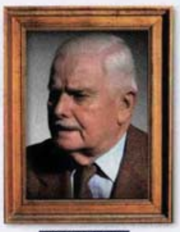
### CAYZER SHIPPING DYNASTY

The Cayzer name may not have the same brand recognition as Rothschild, but the shipping dynasty owns vast tracts of Scotland. Sir James Cayzer, who died aged 80 in 2012, lived in the vast Kinpurnie Castle near Blairgowrie, once considered the most expensive estate in Scotland. The trust is used to manage the wealth of several generations of the Cayzer family. As such, it is long-term in its approach, focused on stability. Will Wyatt is the chief investment officer and head of the investment team. He is also part of the wider family, who feature on the board and among the investment team.

The trust comprises four 'pools': an income pool, a quoted pool, an unquoted pool and a funds pool. Each operates within a certain range – of which the quoted and unquoted pools will be the largest. Over the past five years, the funds and unquoted pools have delivered the strongest returns for the trust.

The trust takes a similar approach to RIT, focusing on capital preservation first and foremost. It is a 'dividend hero', having racked up 52 consecutive years of dividend growth. Before investors get too excited, the current dividend yield is only 1.9%, but historically, the normal dividend has been augmented by the occasional special dividend – 38.3p per share in 2016 and 24.7p in 2010. The trust has also built up significant reserves, which has allowed the managers to maintain the dividend through difficult times.

The trust has remained on a stubbornly high discount to net asset value in spite of a strong run of performance and in notable contrast to the premium on RIT. Elliott says there are a number of reasons why this might be the case: "RIT has possibly had a higher profile. Wyatt has done a good job on the trust since 2010, but he isn't as high profile as Lord Rothschild. It is just off the radar and given the high level of unlisted stocks, it is priced more in line with the private equity trusts, which are also on significant discounts to NAV."



Sir James Cayzer

"Caledonia is just off the radar and given the high level of unlisted stocks, it is priced more in line with private equity trusts"
**Simon Elliott**

### ECLECTIC PORTFOLIO

The unquoted portfolio is eclectic. This year, the trust bought an 89% stake in Cooke Optics, a Leicester-based manufacturer of cinematography lenses and Deep Sea Electronics, a Yorkshire-based manufacturer of controllers for electricity generators and battery chargers. Historically, it has had stakes in care homes and, notably, in wealth services group 7IM. The trust will work with the companies to grow.

That said, Elliott points out that many of the trust's largest holdings are familiar stocks, including Microsoft. It will tend to outsource in areas where the investment managers feel they doesn't have expertise – this includes Asia and the US market.

### A WINNER?

Elliott is a supporter of both trusts but believes Caledonia is often overlooked and there is some value there. Walls also likes both trusts, believing both are unique in what they can offer to investors. Nevertheless, it is Caledonia's double-digit discount to NAV that should perhaps draw the attention of bargain-hunters.