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RIT Capital – Are Such Benign Conditions Sustainable?

RIT Capital has released its Annual Results this morning, which contains a December NAV of 1839pps which was released to the market at the end of January. RIT saw its NAV increase by 8.2% in 2017, total returns, which compares to 9.6% in the MSCI World Index in Sterling terms although RIT has no formal benchmark and does not index hug.

I will comment on the Private Assets within RIT which remains around 22% however before that I will share some of Lord Rothschild's comments.....

Lord Rothschild acknowledges that the world has recovered from the global economic crisis of a few years ago, however he asks whether such benign conditions are sustainable? QE is in the course of being phased out and interest rates are rising. Debt levels are rising as are geo-political situations with growing unpredictability. Volatility has returned and Lord Rothschild asks whether "current valuations remain excessive adequately reflecting the risks which lie ahead. The question that most are thinking but not necessarily asking is posed....."Are we in the last chapter of a bull market?" RIT continues to prioritise preserving shareholders capital.....identifying - through stock selection, talented external managers and special situations – opportunities at attractive levels with a margin of safety.

The RIT portfolio comprises of net quoted exposure of c44%, private assets (both Direct and Funds) 21.8%, 25% in absolute return and credit and 7% in real assets including gold. Whilst exposure to the US Dollar continues to be reduced from over 60% at the start of the year, 37% in the middle of the year, and now at 30%. Sterling exposure has nearly doubled in the year to 47% whilst Euro has also increased.

The Private Assets are split between Direct being 9.1% and Funds of 12.7%.

In the Directs, the stake in Rockefeller & Co (£46.4m) is in the process of being sold with media reports that hedge fund Viking Global having acquired a majority stake for supposedly 'a low nine-figure sum'. RIT acquired its 37% stake in the business in 2012 from French bank Société Générale for an undisclosed sum. Whilst the management team of GVQ has led a management buyout. RIT Capital Partners acquired GVQ IM from Hansa Aktiengesellschaft, a Swiss-based investment holding company, in a deal announced in December 2014. Despite the sale of GVQ, RIT Capital has indicated that it remains a long term holder of Strategic Equity Capital (SEC) with a 14.5% stake in the London quoted fund (£23.4m) included within RIT's quoted. Towards the end of the year, RIT realised its investment in EDRRIT which generated a 2.0x gross return and an IRR of 18%.

Elsewhere, Acorn one of the world's largest coffee businesses incorporating DE Master Blenders, Keurig Green Mountain and Mondelez's former coffee business performed well and was written up. Additionally, RIT hopes for IPOs of two other Direct investments: African towers business Helios (1.5% of net assets) and Dropbox (1.0%). None of the private investments are held within a fixed life vehicle.

So it seems that there are and could be further developments on the exit front. It will be interesting to find out what RIT's current thinking is about making new investments.....

Josh Kushner's internet and media focused VC fund remains the largest element of RIT's Private Funds business. Clearly there are developments at Tim Levene's Augmentum which is seeking a public listing and it would seem that RIT would be rolling across £10m out of its c£30m investment. Other fund interests include 3G Special Situations and Byron Trott's BDT Capital. The Fund interests are marked at September valuations. A strong relationship with Social Capital (tech) is being built.

I do think RIT Capital (£3bn market cap) is a core name in one's portfolio. The Fund aims to deliver long-term capital growth, while preserving shareholders' capital. Lord Rothschild continues to lead RIT but

has built a very strong team around him including Francesco Goedhuis, Ron Tabbouche and last but in no way least Lord Kestenbaum.

Note:

All prices, NAVs and discounts as at close of business at 26 February 2018 unless otherwise stated.

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