

RIT Capital – Long-term capital growth, whilst preservation of capital

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By James Glass

RIT Capital (£3.23bn market cap) has reported this morning its Interim Results for H1 2019, over which the fund generated total returns of 8.5% with its NAV closing at 1958pps. RIT remains cautiously positioned however following the success in preserving capital in 2018, the portfolio generated healthy returns over the first 6 months in 2019.

The fund's net quoted equity exposure of 43.8%, lower than the 47% where it started the year and averaged 45% over the 6 months. Lord Rothschild states that *"Valuations are, on many metrics, at the upper end of historical ranges at a time when geopolitical risks abound; credit quality is deteriorating; and global economic growth is weakening."*

Lord Rothschild, also said *"Of particular concern is whether the current high level of corporate profitability is sustainable. The last decade has seen a confluence of factors which have benefitted companies' earnings to an unprecedented extent. Lower cost of capital, reduced taxes, stagnant wages and the influence of globalisation contributed to record profit margins. These positive factors are, however, unlikely to be sustained. Trade wars, the weakening of economic growth and the risk of recession are of concern, particularly at a time when stock markets have reached all-time highs."*

RIT is investing but in situations that either give it a degree of protection in potentially deteriorating conditions or in areas where structural growth rates are sufficiently high for valuations to hold their own or indeed proposer.

The quoted equity investments generated returns of nearly 8% in H1 2019. Some of the larger individual names include Automatic Data Processing (1.6% of net assets), P&G (1.0%) and Booking Holdings (0.8%); but also long-only funds such as Morant Wright (4.8%), HCIF Offshore (4.2%), BlackRock Emerging Markets (3.2%) and hedge funds which includes BlackRock European Hedge Fund (3.5%) and China focused Gaoling (2.9%).

Private Investments represent 26.1% of RIT net assets, and contributed 0.7% to returns in H1. RIT deployed additional capital to a number of new private investments, including a \$50m investment into KeepTruckin a US based logistics business. KeepTruckin is a developer of hardware and software that helps truck drivers manage their vehicles and cargo founded in 2013. It raised \$149m in Series D funding this April, with the round led by Greenoaks Capital and participation from existing backers GV, IVP, Index Ventures and Scale Venture Partners.

The other large unquoteds includes Acorn (4.0% of net assets); the South Korean online consumer business Coupang (1.9%) which continues to grow strongly and African Towers business Helios (1.2%). Coupled with the Direct unquoteds, are interests in Private Equity funds such as Josh Kushner's VC Fund Thrive which has seen big exits over the years from the likes of Instagram and Twitch and Byronn Trott's BDT Capital which is known for advising and investing in family-owned companies.

On currencies, RIT reduced its US Dollar exposure in the expectation of the Fed Reserve lowering interest rates. US Dollar exposure now stands at 16% of net assets compared to 30% at the start of 2019, whilst Sterling has increased from 44% of net assets to 56% in H1, and the Euro increased from 6% to 10%.

RIT has declared a 2nd Interim dividend of 17pps. This will be paid on 31 October to shareholders on the register on 4 October.

As previously announced, Sir James Leigh-Pemberton will be taking over Chairman of RIT from the 30 September. Lord Rothschild will become President, whilst the family ties and investments will be represented through Jacob's daughter Hannah, who is a part of the RIT Capital Board.

RIT Capital has an exceptional long term track record through an unconstrained investment approach seeking to deliver long-term capital growth, whilst preserving shareholders' capital. It is differentiated from most Investment Companies by being self-managed, but also by its active management of both equity and currency exposure. RIT Capital benefits from an impressive senior team led by Francesco Goedhuis (CEO) and Ron Tabbouche (CIO). RIT Capital is one of our core long term recommendations within the Global Investment Companies sector and firmly believe that the fund's emphasis on capital protection fits well with the risk tolerance of many private investors.