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(By James Glass)

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RIT Capital* – Capital Preservation Remains a High Priority

This morning RIT Capital (£3.2bn market cap) has reported its 2018 Final Results. The year-end NAV of 1821pps, was released last month, so that in itself is not news. It is definitely worth highlighting that the RIT performance of in 2018 was meaningfully outperformed equity markets – MSCI All Country World Index was off 5.8%. This is despite net quoted equity exposure averaging 47% over the year…..this was reduced in advance of Q4. However given the sizeable downturn in equities, RIT did not keep pace with the KPI of RPI plus 3.0% which measured 5.7%.

Over the past 5 years, RIT share price total returns were 66% versus 47% for RIT's equity index. More so since inception, RIT has now participated in 74% of market upside but only 39% of market declines.

Lord Jacob Rothschild comments today:

…The dangers of holding assets inflated by low interest rates and quantitative easing are now visible to all. Throughout the year therefore we managed our asset allocation to keep net quoted exposure towards the lower levels of our historical ranges with higher levels of cash than usual.

…In the current year stock markets have, so far, shown significant gains. We remain however cautious about future prospects for markets, concerned over the accumulation of downside risks. Global growth is declining, with the IMF having further reduced its forecasts. The weakest Chinese GDP growth in nearly three decades is clearly having an impact on other regions, while German manufacturing output has contracted for the first time in four years. The most recent retail figures in the US lead one to believe that the economy will find it difficult to repeat last year's fiscal-fuelled results. Against this weakening backdrop, geopolitical risks have not subsided. We are surely witnessing the worst political situation in the United Kingdom since the Suez crisis, while social unrest and populism in a number of European countries cloud the future.

The question is whether current stock market valuations discount these concerns and take into account the likelihood that corporate profits are on the way down, undermined by reduced demand, increased wages, and higher input costs (due to tariffs).

…We therefore anticipate a continuation of heightened market volatility. In these circumstances, capital preservation will remain as high a priority as any in the management of your Company's interest.

…We have an impressive senior team at your Company's wholly-owned manager, J. Rothschild Capital Management Limited (JRCM). Led by Francesco Goedhuis (CEO) and Ron Tabbouche (CIO), JRCM has been instrumental in steering our business through some of the most difficult times in recent market history. Ably supported by Andrew Jones (CFO) and Jonathan Kestenbaum (COO), I believe the way forward for JRCM is in good hands and secure."

RIT's CEO Francesco Goedhuis adds: *"…The portfolio delivered a positive return of 0.8% in 2018, a pleasing performance against the broad declines in global equity markets and other asset classes. With a return in volatility and many investors struggling to navigate the markets, our cautious positioning was clearly helpful. Perhaps even more importantly was where we deployed our exposure - with our private investments and non-equity positions in particular providing a helpful offset to our equity book..."*

RIT's private investment portfolio (25.7% of December NAV) made positive returns (+4.9%) as did absolute return and credit (23.7% of net assets) at a difficult time for credit markets and bonds (0.5%).

On the Private's, firstly the split is 11% in direct investments and 15% in funds. RIT invested more into Acorn (holdco for global coffee businesses) following the merger of its Keurig business with Dr Pepper and there has been a valuation increase and now represents 4.1% of net assets. In April 2018, RIT invested in Coupang, the South Korean online consumer business. Since then SoftBank has made a sizeable new investment in Coupang at a significant uplift to the level of RIT's earlier investment. It now represents 2% of NAV. On private investments RIT seeks to structure investments with an emphasis on downside protection. Helios continues to expand its business and recovered ground at the year end having been written down at the half year. In the third-party managers, both US venture firms ICONIQ and Thrive were key performers in the year. During the year, RIT made sizeable new commitments to funds managed by Biomatics (a healthcare specialist), BDT Capital (our co-investment partner for Acorn), ICONIQ and Hillhouse (a Chinese specialist). Over the year, RIT saw distributions of £78m outweigh capital calls of £37m.

Timely additions to government bonds (inc. US 10 year interest rate positions) and gold benefited from "flight to safety" flows towards the end of the year.

RIT's currency allocations in 2018 saw it profit from the rally in the US Dollar. At the end of 2018, RIT's NAV was 44% exposed to Sterling and 30% in US Dollar neither too dissimilar to the 2017 year-end position. In terms of allocation to Sterling we have been taking a 'balanced' approach as the possibility of a destabilizing political outcome remains, set against what is fundamentally an undervalued currency. However Euro exposure was reduced in 2018 from 12% to 6%., whilst the Japanese YEN exposure now stood at 6% having been nil last year benefiting from the "flight to safety".

RIT intends to pay a 34pps dividend in 2019, up by 3% from 2018. The dividend will comprise of 17p paid in April and 17p in October.

RIT has released a January NAV of 1865p.

RIT Capital remains one of our core long term recommendations within the Global Investment Companies sector. We believe that the fund's emphasis on capital protection fits well with the risk tolerance of many private investors. In addition, we believe that the team, supported by its connections to leading third-party managers, is well placed to exploit opportunities that arise across a range of asset classes on a global basis.