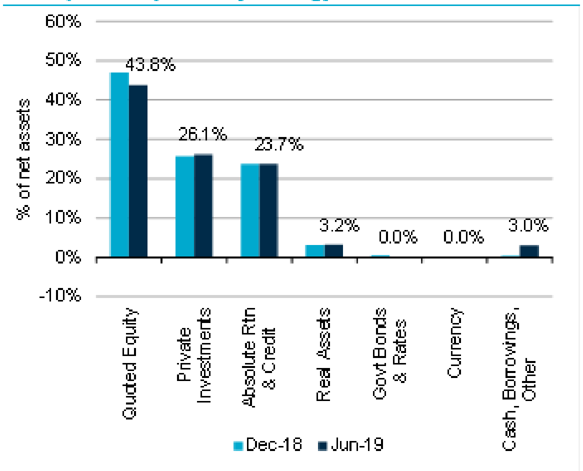
Numis

# RIT Capital Partners: Interim Results: Solid returns given cautious approach

5 August 2019

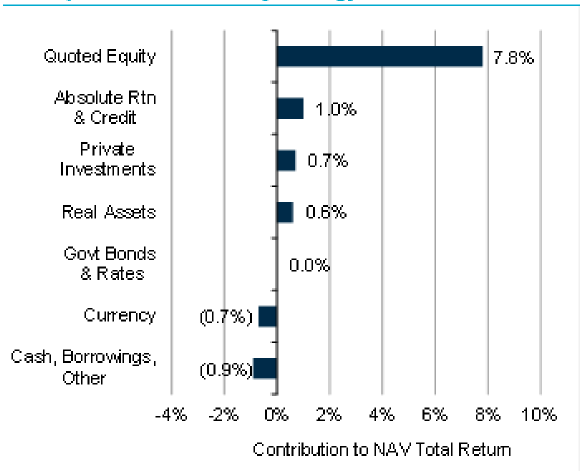
- **Performance**: RIT Capital Partners delivered an NAV total return of 8.5% in the six months to 30 June 2019, which compares with 16.3% for the MSCI AC World Index (50% in Sterling, 50% in local currencies) and 2.9% for the fund's absolute return target of RPI plus 3%. The NAV of 1,958p (£3,045m) at 30 June had already been reported, but the results provide some colour on the fund's performance and portfolio. The shares are currently trading at 2,080p, up 9.8% on a total return basis in 2019 ytd versus a rise of 17.6% in the benchmark equity index, and trade at a premium of c.6% to our estimated NAV.
- **Attribution**: RIT Capital maintained its cautious approach, with net quoted equity exposure averaging 45%, and ending the period at 43% (vs an average of 47% in 2018). The key driver of performance in H1 2019 was the Quoted Equity portfolio, as would be expected given the strong rally in global equity markets. However, there was also a positive contribution from Private Investments, and Absolute Return & Credit assets, while Real Assets benefitted from a 10% rally in the gold price in H1 2019.

RIT Capital – Exposure by Strategy




*Note: Percentage data on chart refer to portfolio allocation at 30 June 2019.*
*Source: Company data*

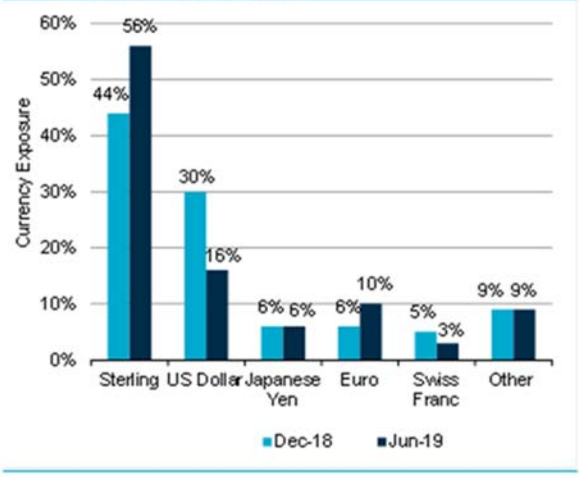
RIT Capital - Contribution by Strategy in H1 2019




*Source: Company data*

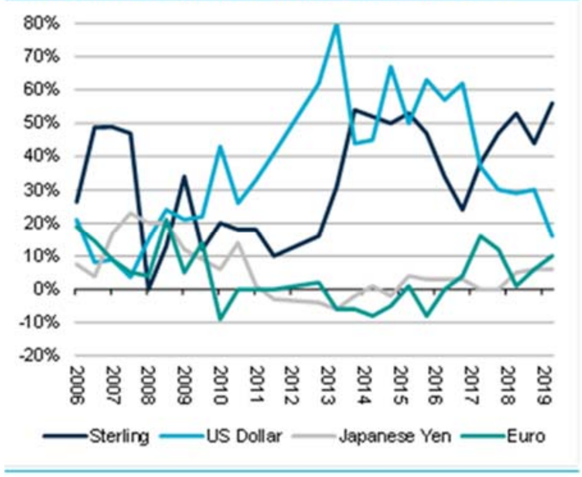
- In contrast to 2018, currency movements were negative as US Dollar exposure was reduced from 30% to 16% in the expectation of the Federal Reserve lowering interest rates. Exposure to Sterling rose from 44% to 56%, the highest for more than a decade. This positioning will not have been helpful for returns since the period-end, as Sterling has fallen 4.8% against the US$ since 30 June.

RIT Capital - Currency Exposure




Source: Company data

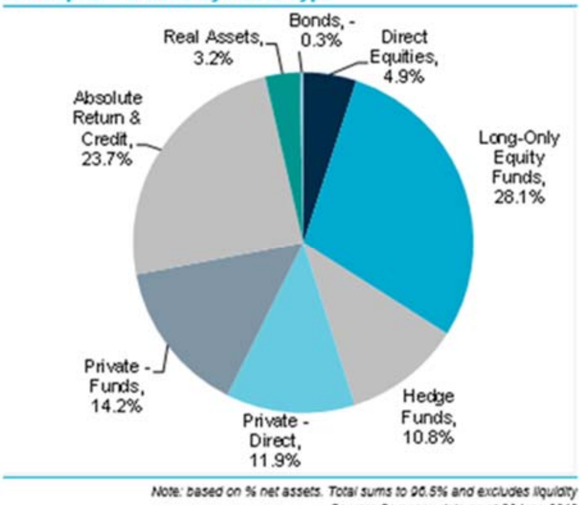
RIT Capital – Change in Currency Exposure over Time




Source: Company data

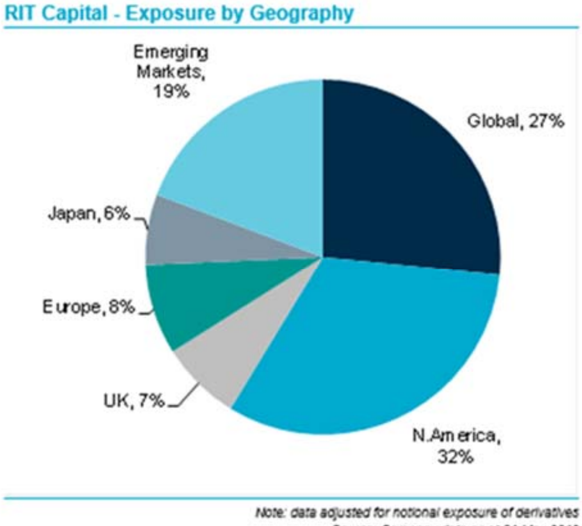
- **Quoted Equities:** Exposure to equities is through a combination of long-only funds 28.1% of net assets, direct equities/co-investment 4.8%, and hedge funds 10.8%. RIT's largest stock co-investments performed well. Early in 2019, the fund exited a successful co-investment in CSX, the railroad operator, alongside Mantle Ridge. Automatic Data Processing, a provider of human resources management software and services, is a co-investment alongside Bill Ackman's Pershing Square and its share price rose 28% in H1 2019. Proctor & Gamble, a co-investment alongside Nelson Peltz's Trian Partners rose 22%, whilst Dropbox, which was acquired as a pre-IPO investment rose 23**%** (all in Sterling terms). RIT's China-related investments also performed well, having increased exposure to the region during market volatility in late 2018.

RIT Capital Portfolio by Asset Type




Note: based on % net assets. Total sums to 96.5% and excludes liquidity
Source: Company data as at 30June 2019

RIT Capital - Exposure by Geography




Note: data adjusted for notional exposure of derivatives
Source: Company data as at 31 May 2019

- **Private Investments**: represent 26.1% of net assets, with 14.2% invested in third-party funds and 11.9% in direct holdings. RIT deployed additional capital to a number of new private investments, including a $50m investment into 'KeepTruckin', a US-based logistics business, as well as other investments in early stage growth companies and funds in the US and Asian markets. Last year, RIT invested in Coupang, the South Korean online consumer business which continues to grow strongly. The largest direct investment is in preferred equity of Acorn Holdings via a co-investment alongside BDT Capital. Acorn is the coffee and soft-drinks subsidiary of JAB Holdings, and RIT made a follow-on investment in mid-2018 to support the merger of Keurig Green Mountain and Dr Pepper Snapple, a New York Stock Exchange listed company. The merger completed in July 2018, bringing together a range of leading US soft-drink brands such as Dr Pepper, 7UP, Snapple, Schweppes, and Sunkist with the Green Mountain Coffee Roasters and the Keurig coffee system (similar to Nestle-owned Nespresso). RIT Capital's key Direct Private investments are shown below.

**RIT Capital - Direct Private Investments**

| Investment | Country | Business | Date | Value £m Dec-18 | Value £m Jun-19 | % Net Assets |
|---|---|---|---|---|---|---|
| Acorn | Global | Coffee | 2016 | 114.9 | 120.4 | 4.0% |
| Coupang | Korea | Online consumer | 2018 | 56.3 | 57.5 | 1.9% |
| KeepTruckin | US | Logistics | 2019 | - | 39.5 | 1.3% |
| Helios Towers | Africa | Mobile phone masts | 2009 | 38.4 | 37.3 | 1.2% |
| CSL | UK | Security alarms | 2016 | 28.1 | 26.5 | 0.9% |
| Infinity Data Systems | UK | Data centres | 2011 | 14.5 | 12.7 | 0.4% |
| Corsair | US | Private Equity firm | 2012 | n/a | 10.8 | 0.4% |
| Age of Learning | US | Education | 2015 | 14.4 | 10.5 | 0.3% |
| Other Direct | | | | 31.2 | 47.3 | 1.6% |
| Total Direct | | | | 297.8 | 362.5 | 11.9% |

*Source: Company & Numis Securities Research*

- **Absolute Return and Credit**: represent 23.7% of net assets. The aim of these investments is to deliver "*stable returns through investing in strategies that are less correlated to markets*". Over the past year or so, RIT had reduced the overall credit sensitivity of this portfolio, with the emphasis being on finding idiosyncratic opportunities with relatively low default probabilities.

- **Manager Outlook and Strategy**: In the Interim Report, Lord Rothschild, comments "*We remain cautiously positioned with net quoted equity exposure of 43% and private investments of 26%. 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. 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*".

- "*Against this backdrop we are seeking to invest in situations that either give us 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 prosper. This approach shapes our asset allocation and security selection. We seek to identify and to invest in companies with strong balance sheets, attractively low valuations and which are likely to exceed GDP growth rates. Many of our recent private investments are designed to benefit from some structural protection. Outside of equities, we look for uncorrelated strategies which are not dependent on economic growth and which we expect to produce positive returns*".

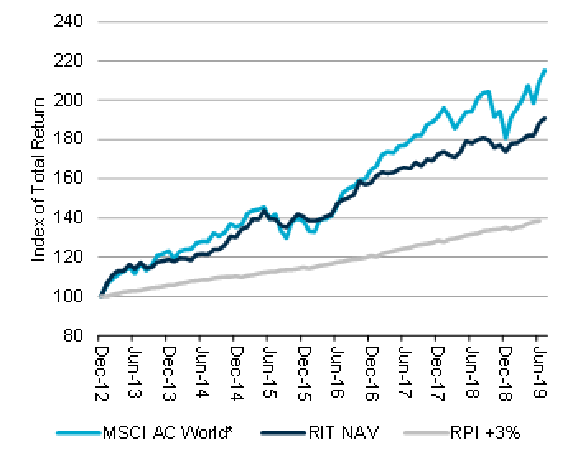
- **Board Succession**: As announced in late April, Lord Rothschild will step down as Chairman and Director of the company on 30 September 2019, and will take up the role of President of RIT. At that time, Sir James Leigh-Pemberton will become Non-Executive Chairman of RIT. Lord Rothschild founded RIT and has driven its investment strategy over the past 30 years. However, he has been increasingly stepping back from day-to-day management over the past few years, having found a team in which he has faith. JRCM's senior management team has now been in place for over six years, led by Francesco Goedhuis (CEO) and Ron Tabbouche (CIO), supported by Andrew Jones (CFO) and Jonathan Kestenbaum (COO).

- Importantly, Lord Rothschild reaffirmed his family ties with RIT and commented that they would "remain committed, engaged and significant RIT shareholders in the years ahead". The family, which holds a 21.35% stake in RIT, will continue to be represented on the Board by Hannah Rothschild (Lord Rothschild's daughter), who was appointed as a non-executive director in 2013 as part of the succession planning.
- **Dividend**: The Board intends to pay total dividends of 34p in 2019, an increase of 3% (1.0p) over the previous year. A dividend of 17p was paid in April, with a second interim dividend of 17p to be paid on 31 October (ex-date 3 October). This represents a prospective yield of 1.6% and the Board has previously stated that it intends "*to maintain or increase this level in the years ahead, subject to unforeseen circumstances*". The manager's focus is on long term capital growth, rather than income generation, and the dividend is supported through transfers from capital - earnings per share during the six month period were 4.1p.

**Numis Views**

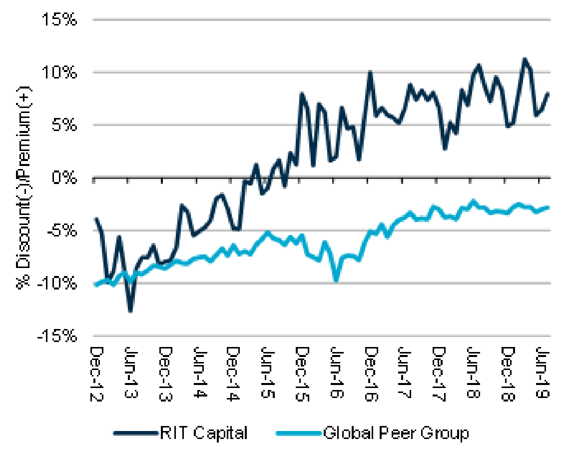
- RIT Capital has an exceptional long term track record through an unconstrained investment approach seeking to deliver long-term capital growth, whilst preserving shareholders' capital. It is differentiated from most Investment Companies by being self-managed, but also by its active management of both equity and currency exposure. Since inception in 1988, it has delivered an attractive return profile, participating in 73% of market upside, but only 38% of market declines. This has resulted in the NAV total return compounding at 11.1% pa, significantly ahead of global equity markets - the MSCI AC World and FTSE All Share have delivered annualised Sterling total returns of 8.9% and 8.6%, respectively.
- The diversified nature of RIT's portfolio and its low equity exposure mean that the NAV is unlikely to keep up with equity indices during bull markets, as was the case during H1 2019. On the other hand, the capital preservation benefits of RIT's approach came to the fore in 2018 when it achieved a positive NAV total return. 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. As a result, we expect RIT to continue to deliver attractive risk-adjusted returns, and it remains one of our core long term recommendations within the Global Investment Companies sector. The current premium to NAV of c.6% remains high relative to history and this is a drawback for potential investors, in our view, and we believe there is an argument for RIT to issue shares to provide liquidity for buyers at a price closer to NAV.

**RIT Capital - NAV total returns Under Current Management**




*Source: Thomson Financial Datastream*

**RIT Capital – Discount History**




*Note: peer group represents unweighted average of 11 largest Global ICs*
*Source: Datastream*

- On 31 May 2019 we published a detailed note on RIT which discusses its performance record, management structure, portfolio and investment approach. If you would like a copy of the full note (50 pages), please click here: [Request RIT Capital Partners Note]