Numis

5 March 2019

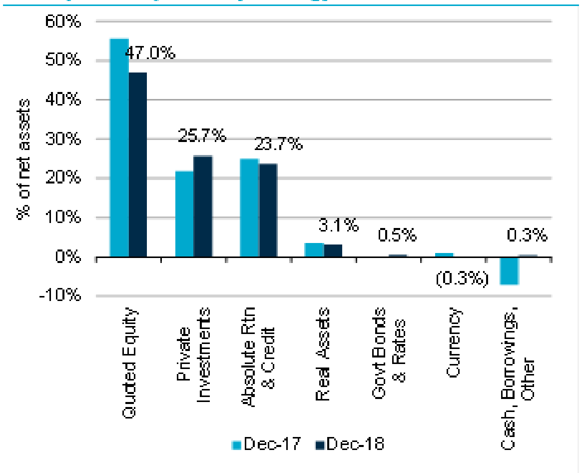
Global Defensive

RIT Capital Partners*: Results: Cautious stance and diversified portfolio protects capital in difficult year

- **Performance**: RIT Capital Partners delivered an NAV total return of 0.8% in the year to 31 December 2018, achieving one of the fund's key objectives to preserve investors' capital during a challenging year for markets. This compared with a fall of 5.8% for the MSCI AC World Index (50% in Sterling, 50% in local currencies) and +5.7% for the fund's absolute return target of RPI plus 3%. The December NAV of 1,821p had already been released. However, the results provide far more colour on the fund's performance and portfolio. The company only releases a monthly NAV, and the latest figure is for 31 January 2019 of 1,865p, up 2.4% from the year-end. The shares are currently trading at 2,055p, up 7.6% in 2019 ytd versus a rise of 9.3% in the benchmark equity index, and trade at a premium of c.8.4% to our estimated NAV.

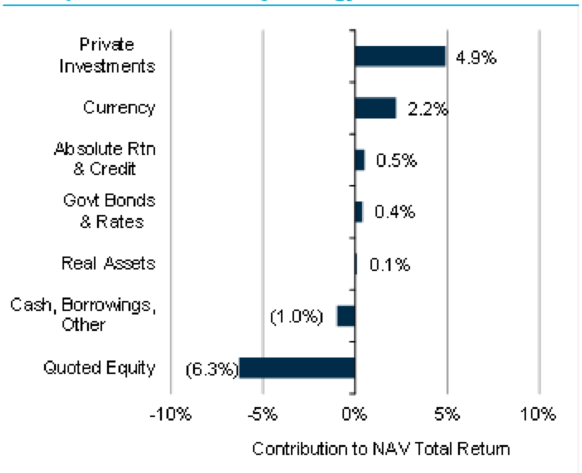
- **Attribution**: During a volatile year for markets, RIT Capital maintained its cautious approach, with net quoted equity exposure averaging 47%. The portfolio is diversified by asset class, and there was a positive contribution from all non-equity allocations, notably Private Investments (+4.9% contribution), both directly and through third-party managers. Although it was a difficult year for the fund's long term structural allocation to Asian equities, a reduction in equity exposure in H2 2018 proved well timed. In addition, US treasury call options and gold benefitted from 'flight to safety' flows towards the end of the year.

RIT Capital – Exposure by Strategy



Note: Percentage data on chart refer to portfolio allocation at the end of 2018.
Source: Company data

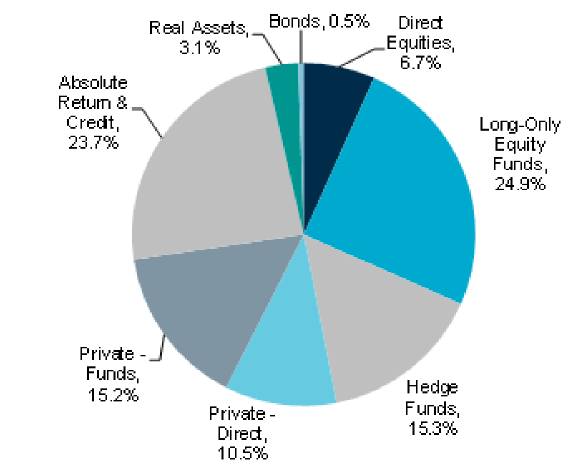
RIT Capital - Contribution by Strategy in 2018



Source: Company data

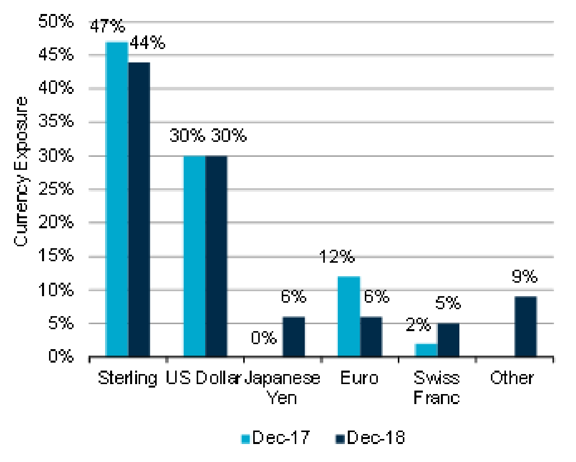
- In contrast to 2017, currency movements were positive as the NAV benefited from a strengthening of the US Dollar. RIT Capital's US$ exposure of 30% at Dec-2018 was changed little over the year. Sterling exposure rose from 47% at Dec-17 to 53% at Jun-18, but was reduced to 44% at the year-end. Over the year, exposure was increased to the Yen (0% to 6%) and Swiss France (2% to 5%), while the Euro exposure was cut from 12% to 6%.

RIT Capital Portfolio by Asset Type



Note: based on % net assets. Excludes 0.1% in equity derivatives and -0.3% in currency contracts
Source: Company data as at 31 December 2018

RIT Capital - Currency Exposure



Source: Company data

- **Quoted Equities:** The quoted equity portfolio had a mixed year. Exposure was relatively low through the year, and was reduced further in advance of the sharp falls in the final quarter of 2018. However, a long-term strategic allocation to fund managers investing in Asia (particularly China and Japan) proved costly in 2018. The managers took advantage of this weakness to add to positions in both domestic China and Latin America. The allocation to the US stayed fairly constant over the year, but RIT's managers remain wary on the prospects for European markets.

- Exposure to equities is through a combination of long-only funds 45%, direct equities/co-investment 27%, and hedge funds 28%. RIT's largest stock co-investments performed well, and its key biotechnology manager (HCIF Offshore, 3.9% net assets) finished the year in positive territory. However, RIT redeemed more than 10% of its long-only and equity hedge funds, partly because of a more cautious strategy, but also because of "an acknowledgement that the environment is a difficult one for the traditional equity hedge fund model".

- **Private Investments**: represent 25.7% of net assets, with 15.2% invested in third-party funds and 10.5% in direct holdings. It was an active year for the direct private equity portfolio, with the completion of the sale of Rockefeller and the IPO of Dropbox. In addition, RIT Capital made a new investment in **Coupang**, South Korea's leading online consumer business, which benefitted from a significant uplift in value in H2 2018 following a sizeable investment from Softbank. RIT also increased its investment into **Acorn**, the coffee company, to help fund the merger of Keurig with Dr Pepper Snapple, a deal that resulted in a significant uplift in value. Helios Towers, African Telecom towers business, pulled its IPO in the early part of the year, resulting in a reduction in value at the half year, but there was a recover in H2 2018 driven by continued profits growth. RIT Capital's key Direct Private investments are shown below.

RIT Capital - Direct Private Investments

Investment	Country	Business	Date	Value £m Dec-17	Jun-18	Dec-18	% Net Assets
Acorn *	Global	Coffee	2016	57.4	102.9	114.9	4.1%
Coupang	Korea	Online consumer	2018	-	38.2	56.3	2.0%
Helios Towers	Africa	Mobile phone masts	2009	42.6	35.2	38.4	1.4%
CSL	UK	Security alarms	2016	25.1	25.8	28.1	1.0%
Infinity Data Systems	UK	Data centres	2011	26.1	20.9	14.5	0.5%
Age of Learning	US	Education	n/a	n/a	14.1	14.4	0.5%
Rockefeller & Co	US	Financial services	2012	46.4	-	-	-
Dropbox	US	Cloud technology	2011	28.5	-	-	-
Other Direct				33.7	27.9	31.2	1.1%
Total Direct				259.8	265.0	297.8	10.5%

** additional capital was invested in Acorn in H1 2018. Source: Company data*

- The emphasis for future investment is on directs (principally Venture and Growth Capital), but RIT continues to make "*selective commitments to high quality managers with niche expertise, as well as to core partners who we feel comfortable co-investing alongside*". During 2018, new fund commitments included Biomatics (a healthcare specialist), BDT Capital (our co-investment partner for Acorn), ICONIQ and Hillhouse (a Chinese specialist). RIT has access to leading private equity funds through its well-established network of relationships.

- Some of the key performers in 2018 were Thrive Capital (Funds III, IV and V) and ICONIQ 6, both US venture firms. In addition, an older fund, Blumberg VC I, sold one of its last remaining positions "for a very sizeable uplift". The majority of the private funds are valued using the General Partner's September valuations, adjusted for subsequent calls and distributions up to the year end. Over the year, there were £37m of capital calls and £78m in distributions, resulting in a net inflow of capital of £41m.

- **Absolute Return and Credit**: represent 24% of net assets. The aim of these investments is to deliver "*stable returns through investing in strategies that are less correlated to markets*". In recent quarters, RIT had reduced the overall credit sensitivity of this portfolio, which helped performance in 2018. Towards the end of the year, RIT's managers have been looking to capitalise on "*idiosyncratic opportunities in credit markets*", where they see the ability to obtain double-digit yields "*with relatively low default probabilities*".

- **Manager Outlook**: Lord Rothschild, comments "*2018 was the most difficult and treacherous year for investors since 2008, with negative returns in all major asset classes. In this context, we are pleased to be able to report that we delivered on our primary long-term aim of preserving shareholders' capital....We were able to deliver this return in part by having reduced quoted equity exposure in advance of a fourth quarter which saw global equity indices fall by 13%.....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*".

- Lord Rothschild emphasised the strength of JRCM's senior management team which has now been in place for six years, led by Francesco Goedhuis (CEO) and Ron Tabbouche (CIO), supported by Andrew Jones (CFO) and Jonathan Kestenbaum (COO). He comments "*I believe the way forward for JRCM is in good hands and secure*".

- **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 (16.5p) will be paid on 30 April (ex-date 4 April), with a second interim dividend of 17p (16.5p) in October. This represents a prospective yield of 1.7% and the Board has previously stated that it intends "*to maintain or increase this level in the years ahead,* *subject to unforeseen circumstances*". Since 1 January 2018, 80% of finance costs have been charged to capital, whereas they were previously all charged to the revenue account.

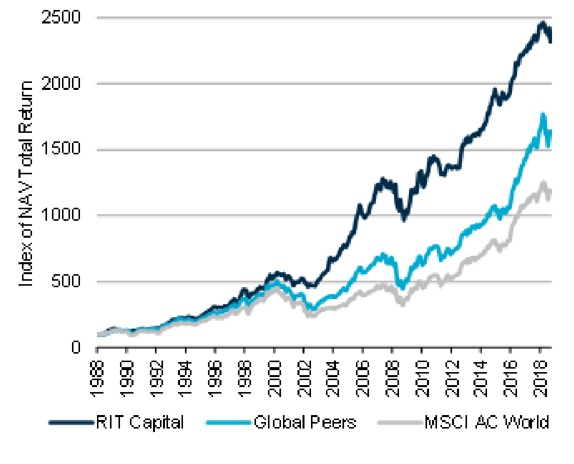
- **Expenses**: The company's ongoing charges figure (OCF) was 0.68% in 2018 (0.66% in 2017). However, these figures exclude performance related pay, including LTIPs of £8.3m (0.29%), as well as the external management costs relating to fees charged by third party managers. RIT Capital estimates that external fees are equivalent to 1.03% (1.23% in 2017) of average net assets (excluding performance incentives). RIT Capital's use of specialist third-party managers means that its "all-in" expenses are higher than most of its peers. However, we believe that the company's industry connections are crucial to its impressive track record.

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 75% of market upside, but only 39% of market declines. This has resulted in the NAV total return compounding at 10.9% pa, significantly ahead of global equity markets - the MSCI AC World and FTSE All Share have delivered annualised Sterling total returns of 8.6% and 8.3%, respectively.

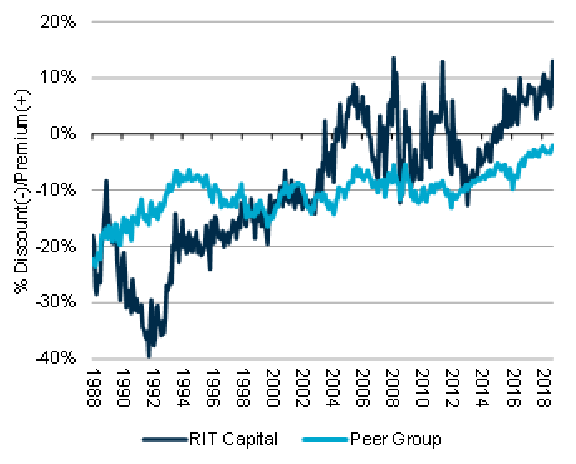
- The current premium to NAV of c.8% remains high relative to history and this is a drawback for potential investors, in our view. Nevertheless, RIT Capital (£3.2bn market cap) remains one of our core long term recommendations within the Global Investment Companies sector. We believe that the fund's 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.

RIT Capital - NAV total returns since Listing



Source: Datastream

RIT Capital – Long Term Discount History



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