

## RIT Capital Partners: Investing Alongside A Financial Dynasty

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### Summary

- RIT Capital Partners acts as the wealth-management vehicle for Lord Jacob Rothschild, one of the stewards of one of the oldest family fortunes in history.
- The opportunity to invest right alongside the Rothschild dynasty has an undeniable appeal.
- The company spreads its assets out across a variety of public companies, private equity, and absolute return funds.
- Historically, RIT Capital Partners has outperformed the market, which was also the case in 2018.
- The company is currently trading at a large premium to NAV so investors may want to wait for a pullback before pulling the trigger.

One investing strategy that I have occasionally discussed on this site is that of following the greatest names in the space. There are very few financial dynasties that have managed to preserve their wealth as long as the Rothschild family, which first rose to prominence when Mayer Amschel Rothschild built up his fortune during the Napoleonic Wars in the early 1800s. Thus, this is a family that has managed to maintain and even expand its wealth over more than two centuries. Therefore, they could be a good family to learn from and emulate if you are interested in building up the same type of legacy for yourself and your heirs. Fortunately, there is an easy way for you to invest your money right alongside one of the current stewards of the family fortune. That way is by investing in RIT Capital Partners (OTCPK:RITPF), which is essentially the asset management vehicle of Lord Jacob Rothschild, its current chairman.

### About RIT Capital Partners

RIT Capital Partners was founded in 1961 by Lord Jacob Rothschild to manage the wealth of the United Kingdom branch of the family outside of its stake in N.M. Rothschild & Sons (the family's investment bank). In 1980, Jacob and his brother Evelyn de Rothschild had a falling out and the latter brother withdrew all of the money that he had invested into the company, leaving it under the sole purview

of Jacob. In 1988, the company went public on the London Stock Exchange and today essentially allows anyone to invest their money alongside Lord Rothschild.

RIT Capital Partners is legally structured as an investment trust that invests mostly in both publicly- and privately-held equities and funds. It also has some exposure to real estate and precious metals. It is important to note that some of these assets are off-limits to most American investors so RIT Capital Partners is one of the few ways for investors to gain access to such assets and the returns from them. In some ways then, it can be thought of as a closed-end fund since it is a publicly-traded company that solely exists to invest in other assets.

### **The Portfolio**

As just mentioned, RIT Capital Partners invests primarily in publicly-quoted stocks and funds that invest in such stocks, although private companies and funds that invest in private companies make up a not insignificant portion of the portfolio. The fund also has some exposure to absolute return and credit funds, which aim to deliver a positive return regardless of what the market itself does. This would be the original purpose of hedge funds in which options and other derivatives are used to provide protection against market swings. We also see investments in real estate, government bonds, and various currencies rounding out the portfolio. Let us discuss these in turn so that you know what your money would be invested in when you buy shares of RIT Capital Partners.

The largest portion of the company's portfolio is invested in publicly-quoted equities and funds investing in such equities, accounting for 47.0% of the company's net assets. Here are the assets that comprise this portion of the company's portfolio:

Investment holdings	Country/Region	Industry/Description	Value £ million	% of NAV
<b>Quoted Equity</b>				
<b>Stocks:</b>				
CSX Corporation <sup>1</sup>	United States	Industrials	103.6	3.7%
Automatic Data Processing <sup>1</sup>	United States	Information technology	36.6	1.3%
Triar Partners Co-Investment <sup>2</sup>	United States	Consumer staples/Industrials	31.5	1.1%
Dropbox	United States	Information technology	16.1	0.6%
Citigroup Swap	United States	Financials, 1.8% notional	(9.0)	(0.3%)
Reckitt Benckiser Swap	United Kingdom	Consumer staples, 1.6% notional	(3.3)	(0.1%)
Alphabet Swap	United States	Information technology, 1.5% notional	(0.7)	(0.0%)
LVMH Swap	Europe	Consumer discretionary, 1.1% notional	0.0	0.0%
RIT Energy Basket <sup>3</sup>	Various	Energy, 0.9% notional	10.0	0.3%
Mitsubishi UFJ Swap	Japan	Financials, 0.8% notional	(1.8)	(0.1%)
S&P Global Swap	United States	Financials, 0.7% notional	0.2	0.0%
Other Stocks	-	-	7.8	0.2%
<b>Total Stocks:</b>			<b>191.0</b>	<b>6.7%</b>
<b>Long-only Funds:</b>				
Morant Wright <sup>4</sup>	Japan	Small/mid-cap, value bias	109.6	3.9%
HCIF Offshore	United States	All-cap, biotechnology	109.3	3.9%
BlackRock Emerging Markets	Emerging Markets	All-cap, value bias	85.8	3.0%
Springs Opportunities	China	All-cap, diversified	70.8	2.5%
Brown Advisory LATAM <sup>5,6</sup>	Latin America	All-cap, diversified	58.2	2.1%
Ward Ferry Asian Smaller Companies	Asia	Small/mid-cap, diversified	44.2	1.6%
Tekne Long-only Fund	United States	All-cap, information technology	43.9	1.5%
Emerging India Focus	India	All-cap, diversified	43.3	1.5%
Lansdowne New Energy	Global	All-cap, energy	43.2	1.5%
Triar Partners	United States	Large-cap, diversified	30.7	1.1%
Other Long-only Funds	-	-	65.2	2.3%
<b>Total Long-only Funds:</b>			<b>704.2</b>	<b>24.9%</b>
<b>Hedge Funds:</b>				
BlackRock European Hedge Fund	Europe	All-cap, diversified	88.6	3.1%
Martin Currie Japan	Japan	All-cap, diversified	83.5	3.0%
Gaoling	China	All-cap, diversified	77.4	2.7%
Palestra Capital	Global	All-cap, diversified	76.1	2.7%
ENA Opportunity <sup>8</sup>	Europe	All-cap, diversified	43.6	1.5%
RIT Discovery <sup>7</sup>	Global	All-cap, diversified	43.5	1.5%
Other Hedge Funds	-	-	22.1	0.8%
<b>Total Hedge Funds:</b>			<b>434.8</b>	<b>15.3%</b>
<b>Derivatives:</b>				
FTSE 250 Futures	United Kingdom	Long, 1.9% notional	(0.2)	(0.0%)
GS US Value Basket Swap	United States	Long, 1.2% notional	(0.6)	(0.0%)
DAX Futures	Europe	Long, 1.2% notional	(0.7)	(0.0%)
Euro Stoxx 600 Oil & Gas Swap	Europe	Long, 1.0% notional	(0.4)	(0.0%)
Euro Stoxx 600 Basic Resources Swap	Europe	Long, 0.9% notional	(0.6)	(0.0%)
GS Custom Industrials Swap	United States	Short, 2.7% notional	2.7	0.1%
S&P 500 Futures	United States	Short, 1.5% notional	0.5	0.0%
GS Custom US Transport Swap	United States	Short, 0.9% notional	(0.5)	(0.0%)
iShares NASDAQ Biotech ETF Swap	United States	Short, 0.5% notional	0.4	0.0%
Equity Options	Various	Premium	0.8	0.0%
Other Derivatives	-	-	(0.3)	(0.0%)
<b>Total Derivatives:</b>			<b>1.1</b>	<b>0.1%</b>
<b>Total Quoted Equity</b>			<b>1,331.1</b>	<b>47.0%</b>

Source: RIT Capital Partners

As we can clearly see here, only 6.7% of the portfolio is invested in bets on individual common stocks. Rather, RIT Capital Partners prefers to spread its assets out across a variety of both long-only and hedge funds. Lord Rothschild is clearly not trying to be Warren Buffett and Berkshire Hathaway (BRK.B) here. In addition, note how RIT Capital Partners spreads its assets out across publicly-traded equities all around the world. As I discussed in a recent article, I believe that the United States' market is

overvalued and that investors are well served by having their portfolios diversified internationally so this is certainly nice to see.

We also see here that RIT Capital Partners is invested in stocks of both large and small companies. This is also something that is quite nice to see as historically small- and mid-caps have beaten large-cap equities in terms of total return. However, that has not been the case in the U.S. markets over the past decade as the S&P 500 (SPY) has beaten the Russell 2000 over the past decade. Thus, it is nice to see that most of the funds that the company has invested in are all-cap funds and are therefore free to invest in whatever size companies will enable the maximization of total return.

Overall then, this appears to be a very well diversified international portfolio that should allow RIT Capital Partners to both preserve its current assets and take advantage of opportunities as they present themselves. Let us turn now to the private companies in which RIT Capital Partners is invested.

As was the case with its investments in publicly-traded equities, RIT Capital Partners conducts its investments through both direct investments and funds that invest in such assets. Here is the company's portfolio of privately-held investments:

Investment holdings	Country/Region	Industry/Description	Value £ million	% of NAV
<b>Private Investments – Direct:</b>				
Acorn	Global	Consumer staples	114.9	4.1%
Coupang	Asia	Information technology	56.3	2.0%
Helios Towers	Africa	Telecommunication services	38.4	1.4%
CSL	United Kingdom	Information technology	28.1	1.0%
Infinity Data Systems	United Kingdom	Information technology	14.5	0.5%
Age of Learning	United States	Information technology	14.4	0.5%
Other Private Investments – Direct	–	–	31.2	1.0%
<b>Total Private Investments – Direct</b>			<b>297.8</b>	<b>10.5%</b>
<b>Private Investments – Funds:</b>				
Thrive Capital Funds	United States	Venture Capital	87.3	3.1%
Gaoling – Unquoted	China	Private Equity	43.5	1.5%
ICQ Holdings 6	United States	Private Equity	39.4	1.4%
BDT Capital Funds	United States	Private Equity	38.7	1.4%
Augmentum Fintech	United Kingdom	Venture Capital	18.3	0.6%
3G Special Situations	United States	Private Equity	17.5	0.6%
Other Private Investments – Funds	–	–	185.9	6.6%
<b>Total Private Investments – Funds</b>			<b>430.6</b>	<b>15.2%</b>

*Source: RIT Capital Partners*

As we can see here, 10.5% of RIT Capital Partners' portfolio is invested in six private companies, plus an undisclosed number of small positions. The largest position by far is Acorn, which is a coffee company, and the remainder of the assets are in various technology companies. One of the nice things about many of these positions is that it is the only way for many American investors to gain exposure

to private company investments due to current American law limiting such investments to accredited investors.

The majority of RIT's private company investing is done through funds, which is generally a smart move. This is because these funds provide a way for the company to get access to a variety of private companies without needing to put too much of its own assets into any given company. Thus, the funds provide RIT Capital Partners with diversification benefits just like mutual funds do for other investors. This can be especially important in the case of private companies since these investments tend to be riskier than publicly-traded securities. By doing its investing through funds, RIT Capital Partners is able to protect its assets against such risks somewhat.

RIT Capital Partners also has a significant allocation to absolute return and credit funds in its portfolio, with 23.7% of its assets invested in these funds. Here are the funds that are contained in the portfolio:

<b>Absolute Return and Credit:</b>					
Eisler Capital Fund	Global	Macro strategy	147.1	5.2%	
Attestor Value Fund	Global	Distressed and special situations	112.7	4.0%	
Elliott International	Global	Multi-strategy	99.0	3.5%	
Farmstead Fund	Global	Distressed and special situations	51.1	1.8%	
Emso Opportunity Strategies Fund	Global	Opportunistic credit	48.4	1.7%	
Sand Grove Tactical	Global	Multi-strategy	46.6	1.6%	
BTG Global Derivatives Opportunities	Global	Volatility strategy	37.5	1.3%	
RIT US Value Partnership	Global	Multi-strategy	31.0	1.1%	
Brevan Howard AH	Global	Multi-strategy	20.8	0.7%	
Other Absolute Return and Credit	–	–	77.4	2.8%	
<b>Total Absolute Return and Credit</b>			<b>671.6</b>	<b>23.7%</b>	

*Source: RIT Capital Partners*

As briefly mentioned earlier, the purpose of these investments is to generate a return that is less correlated to the capital markets than the other assets in the company's portfolio. There are various ways in which this can be accomplished including the use of options or other derivatives to protect against market fluctuations. The company's investments in these funds certainly paid off during 2018 as that was a year in which 93% of all assets declined in value but these funds actually delivered a 0.5% gain. It is therefore nice to see that RIT Capital Partners has a portion of its portfolio allocated to such assets as these positive returns can help to offset losses elsewhere in the portfolio.

The remainder of RIT's portfolio is invested in real assets and government bonds. This includes things such as real estate, gold, and the bonds of developed nations (mostly U.S., U.K., and German bonds):

<b>Real Assets:</b>				
Spencer House	United Kingdom	Investment property	35.8	1.3%
Other St James's Properties	United Kingdom	Investment property	25.2	0.9%
BlackRock World Gold Fund	Global	Gold and precious metal equities	17.0	0.6%
Gold Futures	United States	Long, 3.1% notional	3.5	0.1%
Other Real Assets	-	-	6.0	0.2%
<b>Total Real Assets</b>			<b>87.5</b>	<b>3.1%</b>
<b>Government Bonds and Rates:</b>				
US Dollar Interest Rate Swaps <sup>a</sup>	United States	Long, 7.0% notional	2.4	0.1%
Spanish 2-year Sovereign Bond Swap <sup>b</sup>	Europe	Short, 4.1% notional	(3.3)	(0.1%)
German 2-year Sovereign Bond Swap <sup>b</sup>	Europe	Long, 1.9% notional	0.4	0.0%
Interest Rate Options	Various	Premium	13.3	0.5%
<b>Total Government Bonds and Rates</b>			<b>12.8</b>	<b>0.5%</b>
<b>Other Investments:</b>				
Currency Forward Contracts	Global	Forward currency contracts	(9.5)	(0.3%)
Currency Options	Various	Premium	0.0	0.0%
<b>Total Other Investments</b>			<b>(9.5)</b>	<b>(0.3%)</b>

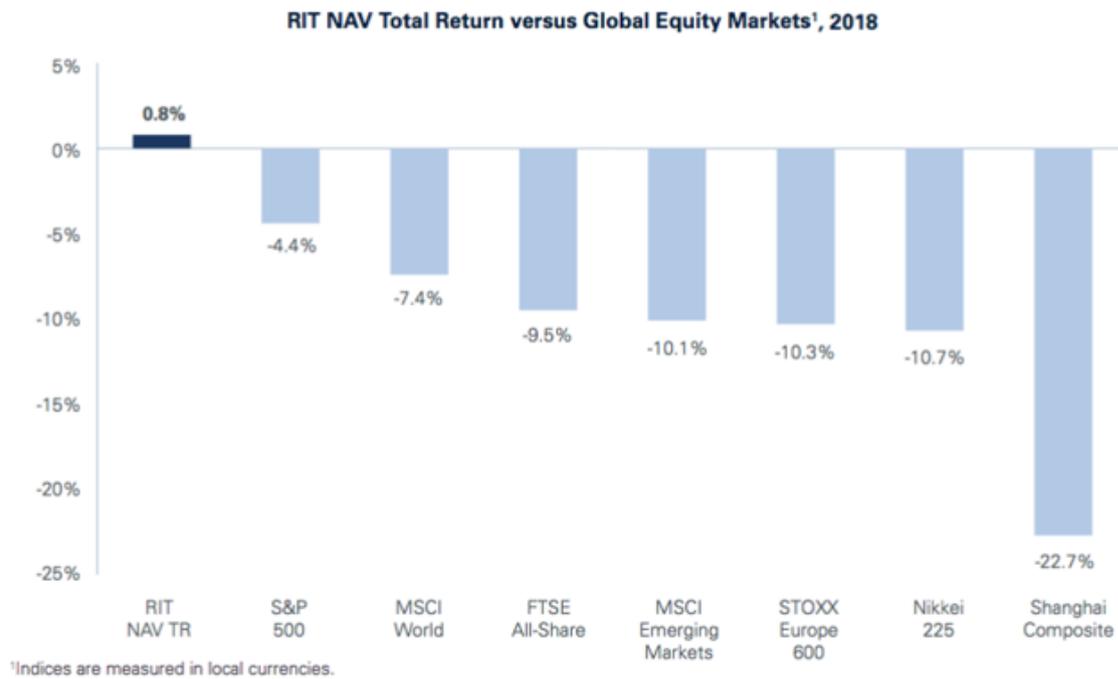
Source: RIT Capital Partners

With the possible exception of the government bonds, which are mostly a currency substitute, these assets provide the company with some protection against inflation. This is because real assets typically appreciate when the supply of money increases. In addition, the real estate provides the company with some rental income, although this is admittedly quite small in relation to the overall portfolio. In addition, the returns of real assets are not always correlated to the broader market so these assets provide the company with a certain amount of diversification.

## Performance

While a look at the company's portfolio is certainly instructive, most readers are going to be much more concerned with its performance. Historically, RIT Capital Partners has delivered very solid returns. Since 1988, RIT Capital Partners has seen its share price appreciate by 12.1% on average annually, which significantly beats its benchmark index (the MSCI All-Country World Index). Indeed, an investment of £10,000 in RIT Capital Partners would be worth £326,000 today (assuming reinvested dividends) compared to £73,000 off of the same investment in the ACWI.

On a near-term basis, RIT Capital Partners has delivered very solid performance. As already mentioned, 93% of all assets delivered negative returns in 2018. This includes most indices and mutual funds. RIT Capital Partners, in contrast, managed to deliver a positive return, with its net asset value increasing by 0.8% compared to the losses delivered elsewhere:



*Source: RIT Capital Partners*

Clearly then, RIT Capital Partners has a long history of delivering market-beating returns in all market conditions. While past performance is certainly no guarantee of future performance, this still provides a lot of reasons for investors to be confident in the money management skills of the company's management. The fact that Lord Rothschild has a vested interest in protecting his own family's wealth does not hurt either!

### **Valuation**

RIT Capital Partners certainly looks like an appealing asset to add to our portfolios. However, as is always the case, it is critical for us to make sure that we do not overpay for any asset in our portfolios. This is because overpaying for any asset is a surefire way to ensure that we generate sub-optimal returns from that asset. As RIT Capital Partners is essentially a giant and unique closed-end fund, we can value it based on the same methodology of net asset value that we would use for such funds. As of December 31, 2018 (the latest date for which figures are available as of the date of writing), RIT Capital Partners had a net asset value of 1,821 GBp per share and a price of 2,078 GBp per share. Thus, the company currently trades at a 14.11% premium to NAV. While we ordinarily do not like to pay a premium to net asset value, it is somewhat justified here as RIT Capital Partners has historically outperformed the market and it historically trades at a premium to NAV. The current premium is currently a bit higher than its historical average though so potential shareholders may want to wait for a pullback in the share price before buying in.

**Conclusion**

In conclusion, RIT Capital Partners offers any investor a way to have their money managed right alongside that of Lord Jacob Rothschild of the legendary banking family. The company invests in both public and private companies as well as funds using various absolute return strategies, which has allowed the company to deliver solid performance through all market conditions. The price might be a little high though so prospective investors may want to wait for a pullback before buying shares of the company.