The Times

A safe bet: investing with the Rothschilds

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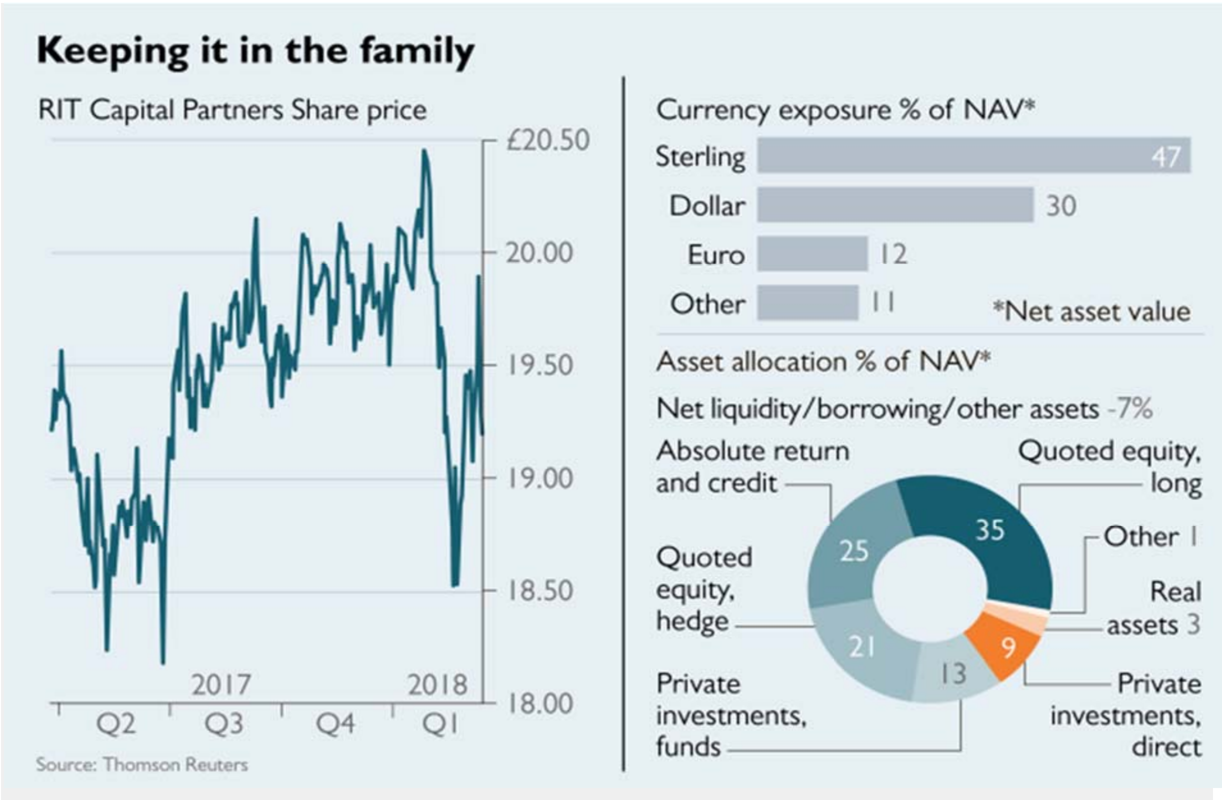
By Katherine Griffiths

If you are rich, your main concern is probably to preserve your fortune rather than to worry about making more. That surely is the view of the Rothschild family, who created an investment trust in the 1970s to manage their wealth.

That business is now RIT Capital Partners and remains central to the family's interests — they own a fifth of its shares — but while the trust has been a good custodian of the Rothschild money, what about other investors seeking to boost their smaller nest eggs?

RIT Capital Partners has been managed for caution. Its exposure to quoted shares was only 44 per cent last year, well below its long-term average, while 7 per cent was in real assets such as gold.



As it released results last week, Lord Rothschild, chairman of the £3 billion investment trust and of J Rothschild Capital Management, which makes RIT's investment decisions, warned of a range of risks, including terrorism, cyberattacks, the “highly unpredictable” nature of US policies and rising populism in Europe and elsewhere.

He also has highlighted the uncertainty posed by the unwinding of quantitative easing and rising interest rates.

There is a lot of sense in his caution. While President Trump’s corporate tax-slashing plan has acted as a massive shot in the arm for America’s stock markets, there should be plenty of room for concerns that the exuberance could well come crashing down. His other named risks are also clearly reasonable.

While treading its cautious path, the trust’s net asset value total return was 8.2 per cent last year. Over the past three years, the return has been 31 per cent.

Inevitably, the trust has missed out of some of the boom times in equity markets. In 2017, the MSCI All Country World Index, the global equities index it uses as an informal benchmark, rose by 16.5 per cent.

Looking at it another way, as a relatively safe place to house some funds, the trust beat a benchmark of retail prices index plus 3 per cent — a 7.1 per cent hurdle. Over ten years, it has beaten the All Country World Index benchmark.

One of the interesting features of the trust, it argues, is that through its network of contacts, based on its famous name, it can invest early in interesting projects that others have no access to. That has made it a big backer of private companies.

Two, Helios Towers Africa, a mobile phone masts company, and Dropbox, the American cloud storage company, are set to float this year. Its stakes in the companies are valued at £42.6 million and £28.5 million, respectively.

RIT is also a relatively big backer of hedge funds and external managers. The hedge funds do not come cheap, charging their usual management fees of 1 per cent to 2 per cent plus a 15 per cent to 20 per cent performance fee.

Shares in RIT have gone sideways this year. That should not put off those in search of long-term returns and, most important, a safe harbour for their funds to shelter from a possible a sell-off in global equity markets. It is also nice to know that the trust is run by someone with a real interest in its success. Lord

Rothschild's stake is worth £500 million. The only question about his stewardship is how long he might want to continue, as he is 81.

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WHY Sound investment for the long term

Mysale

The average stock market punter could be forgiven for not knowing much about Mysale. Although the "flashsale" fashion website is listed on London's junior market, its main audience is in the southern hemisphere.

The Sydney-based company's UK float in 2014 also did not get off to a good start after a fat-fingered error meant that it inadvertently floated at 2.26p a share, instead of 206p, triggering a sell-off. It followed that disaster with a profit warning six months later after expanding too quickly into the American and South Korean markets and over-extending itself. Now, however, four years on, it is time to give Mysale some serious consideration.

The business was founded in 2006 by Jamie Jackson, who was later joined by his brother Carl, who is now its chief executive. The model is relatively simple: Mysale provides an online platform for retailers from Europe, Britain and the United States to sell excess stock largely in the southern hemisphere, although it does have a small operation, which trades as Cocosa, in the UK.

Retailers tend to like the platform because it provides another outlet for disposing of stock and generating new customers. Mysale has a flexible model for working with brands. It buys stock outright or simply to fill orders. It is not like Farfetch or Net-a-Porter, the luxury online portal, as it clearly targets the mid-market and is working with about 2,500 brands, with more joining regularly. It has more than a million "active users" — shoppers who use the site every year — and an average basket size spend of $87.

It is a model that seems to be working as Mysale published its sixth successive quarter of revenue and profit growth yesterday. Revenue was up 11 per cent at A$151.9 million (£85 million) and underlying pre-tax profit was up 266 per cent at A$2.3 million. Its gross margin has risen from 28.1 per cent to 30.1 per cent. Mysale is operating in markets where it has few competitors and it expects further growth as it signs up new retailers and increases its customer base, which rose by 12 per cent in the first half alone. The retailer said that for the full-year it expected profits to be at the top end of its range of A$11.5 million to A$11.8 million.

Mysale’s shares still have some way to go before recovering to the float price — something that early investors, including Sir Philip Green, the Topshop billionaire who holds a 21.54 per cent stake via Shelton Capital Management, and Mike Ashley’s Sports Direct, which holds a a 4.7 per cent stake, are well aware of. However, it looks to be on an upward trajectory.

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WHY Shares still below float price with growth to come