

Ruffer Investment Company Limited

An alternative to alternative asset management



September 2016 Issue 136

During September, the net asset value fell by 0.8% after adjusting for the 1.7p dividend declared during the month. This compares with a rise of 1.7% in the FTSE All-Share Total Return index. Over September, the company moved from a 2% discount to a 1.7% premium.

During Richard Nixon's visit to Beijing in 1972, the Chinese premier, Zhou Enlai, was asked about the consequences of the French Revolution of 1789. Zhou replied that it was 'too early to say'. A mere three months have passed since the UK voted to leave the EU and it is equally hard to say anything with certainty. However, it does seem clear that the political establishment, academics and economists have managed to err once again with their prognostications of immediate recession. What little economic data we have for the UK appears quite robust – so far.

The steep post-referendum fall in the value of the pound has continued but, away from the headlines, UK financial markets have powered ahead. Interestingly, currency markets and the stock market seem to be interpreting events differently. Europe's equities are down, lagging almost 20% behind the UK this year measured in local currencies, and yet, contrastingly, the euro has remained resilient despite challenges ranging from political insurgency and a refugee crisis to rolling banking emergencies from Munich to Milan. Deutsche Bank's woes are only the latest iteration of the latter, and we wait to see how any losses might be assigned. Who takes the pain? The ECB? The German taxpayer? Shareholders? Bondholders? Depositors? Wherever the blow lands this will set a precedent that will be closely watched across Europe.

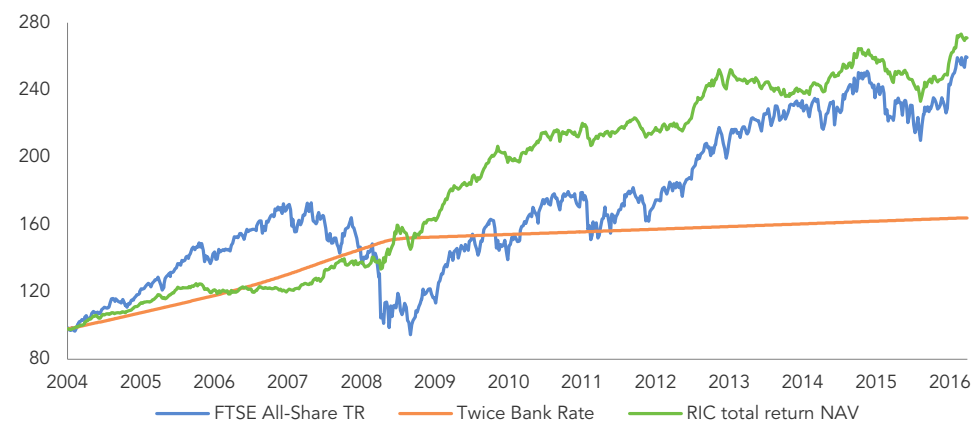
So what to infer from the way events have played out this year? At a headline level, it appears that promises of 'easing' from central bankers and soothing words from politicians are still sufficient to calm markets on the verge of trouble. The essential problem is that central bankers can control asset prices by printing money, cajoling investors and manipulating interest rates, but not the economy. This fundamental disconnection between the economy and markets is growing wider – corporate profits peaked in 2014 and have been trending lower since. Investors are trying to have their cake and eat it – on the one hand they rejoice by contending that lower interest rates means stocks deserve to trade at higher prices, on the other hand they are wilfully blind that the lower rates are locked in place precisely due to grave concerns over future growth (which is the primary driver of future profits).

After much fanfare in the lead up to the September decision, the US Federal Reserve blinked on raising rates yet again. Despite significant levels of dissent from some governors it was judged that 'further evidence of recovery was required'. The surprisingly dovish Fed, the relentless crushing of bond yields, weaker sterling and an increasing clamour for fiscal stimulus have been manna for our index-linked bonds, which remain the crown jewels in the portfolio. The longest dated issues are up significantly this year and we have some 13% of the portfolio in these (or similar) bonds. This is both a celebration and a warning: while non-negotiable in terms of their ultimate portfolio role, their high sensitivity means future bumpy moments cannot be ruled out.

Investment objective

The principal objective of the Company is to achieve a positive total annual return, after all expenses, of at least twice the Bank of England Bank Rate by investing predominantly in internationally listed or quoted equities or equity related securities (including convertibles) or bonds which are issued by corporate issuers, supranationals or government organisations.

Performance since launch on 8 July 2004



Performance %	September 2016	Year to date	1 year	3 years	5 years	10 years
Total return NAV	-0.8	10.0	10.9	11.0	26.9	124.2
Share price TR ¹	2.3	9.8	12.5	9.4	26.1	130.2

¹Assumes re-investment of dividends

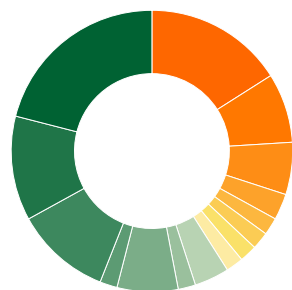
Percentage growth in total return NAV	%	As at 30 September 2016	p
30 Sep 2015 – 30 Sep 2016	10.9	Share price	228.00
30 Sep 2014 – 30 Sep 2015	0.7	Net Asset Value (NAV) per share	224.24
			%
30 Sep 2013 – 30 Sep 2014	-0.6	Premium/discount to NAV	1.7
30 Sep 2012 – 30 Sep 2013	11.7	NAV total return since inception ²	176.5
30 Sep 2011 – 30 Sep 2012	2.3	Standard deviation ³	1.93
		Maximum drawdown ³	-8.61

Source: Ruffer AIFM Limited, FTSE International (FTSE)[†]

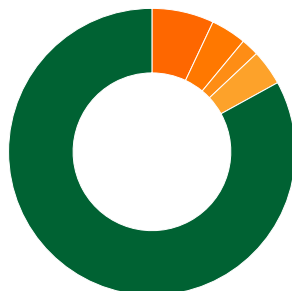
²Including 32.7p of dividends ³Monthly data (total return NAV)

Ruffer Investment Company Limited as at 30 Sep 2016

Portfolio structure



Asset allocation	%		%
● Non-UK index-linked	21	● Japan equities	16
● Long dated index-linked	12	● UK equities	8
● Index-linked gilts	11	● North America equities	6
● Short-dated fixed interest	2	● Europe equities	3
● Gold and gold equities	7	● Asia ex-Japan equities	2
● Options	2	● Cash	2
● Protective illiquid strategies	4	● Other	2
		● Growth illiquid strategies	2



Currency allocation	%
● Sterling	83
● Gold	7
● Yen	4
● US dollar	2
● Other	4

5 largest of 13 bond holdings

Stock	% of fund
1.875% Treasury index-linked 2022	6.4
0.375% Treasury index-linked 2062	6.3
0.125% Treasury index-linked 2068	5.6
US Treasury 0.625% TIPS 2021	4.8
US Treasury 0.125% TIPS 2023	4.1

Source: Ruffer AIFM Limited

5 largest of 55 equity holdings*

Stock	% of fund
T&D Holdings	2.2
Sumitomo Mitsui Financial Group	1.9
Mitsubishi UFJ Finance	1.8
Seven & I Holdings	1.1
Mitsubishi Electric	1.1

*Excludes holdings in pooled funds

The views expressed in this report are not intended as an offer or solicitation for the purchase or sale of any investment or financial instrument. The views reflect the views of RAIFM at the date of this document and, whilst the opinions stated are honestly held, they are not guarantees and should not be relied upon and may be subject to change without notice.

The information contained in this document does not constitute investment advice and should not be used as the basis of any investment decision. References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities. RAIFM has not considered the suitability of this fund against any specific investor's needs and/or risk tolerance. If you are in any doubt, please speak to your financial adviser.

The fund data displayed is designed only to provide summary information and the report does not explain the risks involved in investing in the fund. Any decision to invest must be based solely on the information contained in the Prospectus and the latest report and accounts.

NAV £349.5m Market capitalisation £355.3m Shares in issue 155,838,416

Company information

Annual management charge (no performance fee)	1.0%
Total Expense Ratio	1.18%
Ex dividend dates	March, September
NAV valuation point	Weekly – Friday midnight Last business day of the month
Stock ticker	RICA LN
ISIN	GB00B018CS46 SEDOL B018CS4
Investment Manager	Ruffer AIFM Limited
Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited
Custodian	Northern Trust (Guernsey) Limited
Company structure	Guernsey domiciled limited company
Share class	£ sterling denominated preference shares
Listing	London Stock Exchange
NMPI status	Excluded security
Wrap	ISA/SIPP qualifying
Discount management	Share buyback Discretionary redemption facility

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Managers

Hamish Baillie

INVESTMENT DIRECTOR

A graduate of Trinity College Dublin, he joined the Ruffer Group in 2002. Founded and manages the Edinburgh office of Ruffer LLP and is a director of Ruffer (Channel Islands) Limited. He is a member of the Chartered Institute for Securities & Investment.



Steve Russell

INVESTMENT DIRECTOR

Graduated from Oxford in PPE and started work as an equity analyst at Confederation Life in 1987, progressing to Head of Equities. In 1999 he moved to HSBC Investment Bank as Head of UK and European Equity Strategy, before joining Ruffer in 2003. He is also co-manager of the CF Ruffer Total Return Fund.



Duncan MacInnes

INVESTMENT MANAGER

Joined Ruffer in 2012. He graduated from Glasgow University School of Law in 2007 and spent four years working at Barclays Wealth and Barclays Capital in Glasgow, London and Singapore. Duncan is a CFA charterholder.



Ruffer

The Ruffer Group manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 30 September 2016, assets managed by the group exceeded £20.1bn.