

Ruffer Investment Company Limited

An alternative to alternative asset management



December 2017 Issue 151

During December, the net asset value (NAV) of the Company rose by 1.3%. This compared with a rise of 4.8% in the FTSE All-Share Index TR.

So how should one characterise the performance for the year? The total return NAV of 2.2% in the final quarter was respectable given our investment objectives, but did not make up for an otherwise disappointing year when we only managed to eke out a return of 1.6%. In 2017 all major asset classes rose in value, and data for the last 90 years reveals it as being the only year in which US equities, measured by the S&P index, rose every month. With volatility nailed down at multi-decade lows, momentum was unsurprisingly the most successful investment style. In terms of our equity selection, our upbeat economic views, plus consideration of valuation, took us towards cyclical and financial stocks and away from the 'bond like' equities and technology darlings that provided the market leadership. We were right on the economy, but, in hindsight, wrong that the rise in bond yields that greeted the Trump victory in November 2016 would fizzle out quite so early in 2017 and not revive. While others made far superior returns, we do not regret the positions we held. Reflecting our primary investment objective of capital preservation, we will always hold protective assets; the difference these days in a world of zero interest rates is that they have a cost rather than yielding a small positive return.

In the last month, after many false starts, President Trump finally chalked up a legislative victory through his tax reform bill. Its headline feature is a reduction in the US corporation tax rate from 35% to 21%; further measures within the package reduce capital allowances over time, and therefore may spur an acceleration of capital expenditures in 2018. For this and other reasons, some have seen the legislation as providing economic stimulus to an economy already near its capacity limits, and therefore as taking unnecessary risks with inflation and the public finances. Indeed, companies such as Wells Fargo, AT&T and Comcast are all raising employee earnings as a direct response to the measures. Be that as it may, markets preferred to look on the bright side, taking equity and commodity prices generally higher through the month, while bond yields remained broadly quiescent.

As we enter 2018, much of the commentary seems to call for more of the same in terms of the investment backdrop. While we are no more competent at market timing than the next person, we feel such an outcome is unlikely, not least given the fact that stability has the inconvenient propensity of begetting instability. If economic growth surges, inflationary bonfires emerge and central banks are deemed to be behind the curve, then our equity selection and interest rate swaptions should perform. If the 'Minsky moment' arrives, and markets fall sharply then while the company's equity holdings will not be immune from damage, our equity protections should soar in value. If there is an economic relapse, then the likely fiscal response will boost inflation expectations. While the portfolio obviously cannot prepare for every eventuality, we are trying to address the difficult questions that others are shying away from and we would like to think that at least some of the major risks are covered, whilst leaving enough on the table to generate positive returns going forward.

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 %	December 2017	Year to date	1 year	3 years	5 years	10 years
Total return NAV	1.3	1.6	1.6	13.1	26.1	118.0
Share price TR ¹	1.1	1.3	1.3	13.3	26.7	124.9

¹Assumes re-investment of dividends

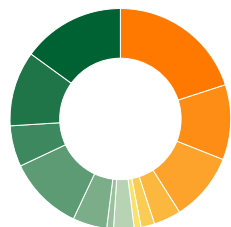
Percentage growth in total return NAV	%	As at 29 December 2017	p
31 Dec 2016 – 31 Dec 2017	1.6	Share price	235.50
31 Dec 2015 – 31 Dec 2016	12.4	Net Asset Value (NAV) per share	230.91
			%
31 Dec 2014 – 31 Dec 2015	-1.0	Premium/discount to NAV	2.0
31 Dec 2013 – 31 Dec 2014	1.8	NAV total return since inception ²	187.0
31 Dec 2012 – 31 Dec 2013	9.5	Standard deviation ³	1.86
		Maximum drawdown ³	-8.61

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

²Including 34.5p of dividends ³Monthly data (total return NAV)

Ruffer Investment Company Limited as at 29 Dec 2017

Asset allocation



Asset allocation

Asset allocation	%
● Non-UK index-linked	15
● Long dated index-linked	11
● Index-linked gilts	6
● Cash	11
● Gold and gold equities	5
● Options	1
● Protective illiquid strategies	3
● Japan equities	20
● North America equities	11
● UK equities	10
● Asia ex-Japan equities	4
● Europe equities	2
● Growth illiquid strategies	1

Currency allocation

Currency allocation	%
● Sterling	77
● Yen	9
● US dollar	6
● Gold	5
● Other	3

Currency allocation



10 largest of 62 equity holdings*

Stock	% of fund
T&D Holdings	2.7
Sumitomo Mitsui Financial Group	2.2
Lloyds Banking Group	2.2
Mizuho Financial	1.9
Mitsubishi UFJ Finance	1.5
Walt Disney Corp	1.4
Tenaris	1.4
Resona Holdings	1.3
Oakley Capital	1.2
Vivendi SA	1.1

5 largest of 9 bond holdings

Stock	% of fund
0.375% Treasury index-linked 2062	5.7
0.125% Treasury index-linked 2068	5.0
US Treasury 0.625% TIPS 2021	4.1
1.875% Treasury index-linked 2022	4.0
US Treasury 0.125% TIPS 2023	3.5

*Excludes holdings in pooled funds
Source: Ruffer AIFM Limited

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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. The Key Information Document is provided in English and available on request or from www.ruffer.co.uk.

NAV £393.7m Market capitalisation £401.5m Shares in issue 170,488,416

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		

*Audited at 30 June 2017

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Enquiries

Ruffer AIFM Ltd
80 Victoria Street
London SW1E 5JL

+44 (0)20 7963 8254
rif@ruffer.co.uk
www.ruffer.co.uk

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 LF Ruffer Total Return Fund.



Duncan MacInnes

INVESTMENT DIRECTOR

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 31 December 2017, assets managed by the group exceeded £22.8bn.