

# LF Ruffer Pacific & Emerging Markets

Consistent positive returns from Asia Pacific and Emerging Market countries



July 2018 Issue 177

During the month, the fund rose by 1.3% compared to a 1.5% rise in the FTSE All World Asia Pacific ex Japan Index and a 3.2% rise in the FTSE Emerging Index, both adjusted for sterling. July started on a sour note due to concerns around slowing global economies, in particular, a slowdown in China, as well as fears around the increasingly bellicose trade rhetoric from the US. While trade rhetoric remains heated, signs of loosening monetary policy and fiscal stimulus in China supported a late recovery.

In line with our new mandate, we are aiming to take our non-Asian emerging market exposure to around 10% initially. One of our first steps is to start selling our Australian gold stocks, (which are owned as a 'fear' investment) and replacing them with cheaper, higher yielding emerging market gold plays, whose operations are in Africa, Russia and Latin America. Although these are typically lower cost, with better growth profiles, they have generally performed much worse than the Australian stocks this year, in our view, largely due to negative sentiment about emerging markets (EM).

Given recent market concerns over macroeconomic fragilities in Asia and EM, we thought it was an opportune moment to travel to Korea, where the fund has had limited exposure in recent years. Korea is something of a macroeconomic dream in a world concerned by external fragilities. The country ticks all the boxes for external stability including a budget surplus and low government debt levels, a large current account surplus and high foreign reserves, and low inflation. Korea has also enjoyed a strong corporate earnings boom thanks to robust export trends and a healthy semiconductor cycle, which has left Korea amongst the cheapest markets in Asia and EM on a P/E or EV/EBITDA basis.

Korea, however, is not without its challenges. The country's growth rate has become more pedestrian as incomes have moved towards rich world levels and there are increasing domestic concerns around equality and redistribution. The Moon government, which was elected on a platform of inclusive growth, is attempting to address some of these issues through minimum wage increases and labour market reform, but for the time being reforms appear to have hit consumer confidence and negatively impacted employment and corporate earnings. The consumer in Korea is also facing a hangover after a household credit boom over the last decade which has left household debt levels amongst the highest in Asia and EM.

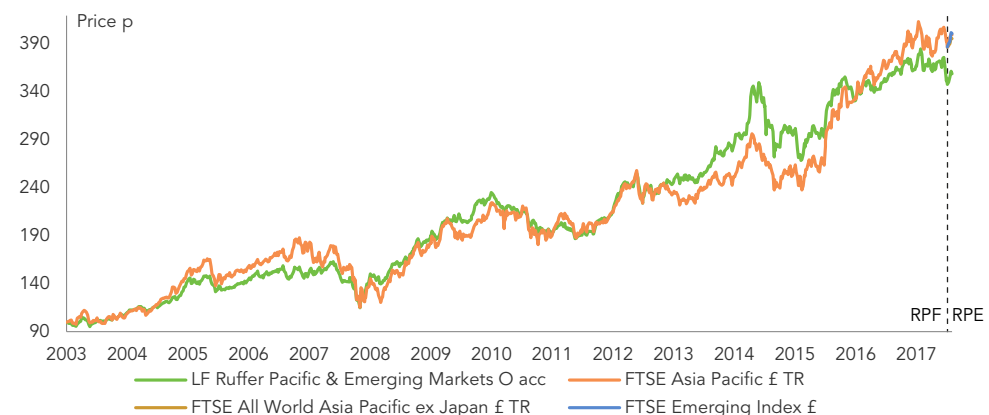
The other major challenge in Korea is corporate governance. Dividend payout ratios are the lowest amongst the major Asian and EM markets, market ownership by the large conglomerates (Chaebols) is very high, and the market is rife with poor capital allocation, cross shareholdings, and holding and operating company structures. There is arguably room for upside if progress is made on this issue, but for the time being improvements here looks modest.

Looking ahead, Korea's fortunes are likely to remain tied to the fate of the export sector, which has historically been the key driver of both GDP growth and equity market performance. As such, Korea will remain a direct play on the health and openness of the global economy, but with a foundation of decent domestic macroeconomic buffers and reasonable valuations.

## Investment objective

The investment objective of LF Ruffer Pacific & Emerging Markets Fund is to achieve consistent positive returns (net of fees) over a five-year rolling period. The fund will aim to achieve the investment objective by investing in an actively managed portfolio comprising of at least 70% in equities and equity related securities of companies listed, quoted or traded in the Asia Pacific region or Emerging Market countries. The fund will retain an Asia Pacific bias. Under normal circumstances, non-Asian emerging markets will account for not less than 10% and not more than 35% of the fund's investments.

## Performance since launch on 31 December 2003



Performance %	July 2018	Year to date	1 year	3 years	5 years	10 years
O accumulation shares	1.3	-2.1	0.3	18.2	49.4	151.8

Percentage growth (O acc)	%	Share price as at 31 July 2018	p
30 Jun 2017 – 30 Jun 2018	1.0	<b>O accumulation</b>	<b>359.48</b>
30 Jun 2016 – 30 Jun 2017	13.9	<b>C accumulation</b>	<b>366.32</b>
30 Jun 2015 – 30 Jun 2016	-5.0	<b>C income</b>	<b>103.00</b>
30 Jun 2014 – 30 Jun 2015	27.1		
30 Jun 2013 – 30 Jun 2014	11.0		

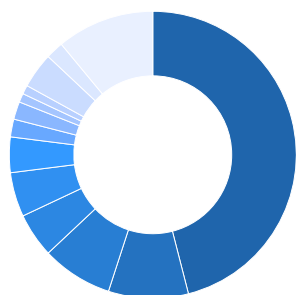
Source: Ruffer LLP, FTSE International (FTSE)†. In July 2018, the LF Ruffer Pacific Fund (RPF) changed its name to the LF Ruffer Pacific & Emerging Markets Fund (RPE) and the investment objective was amended accordingly. Statistics, including performance, for any period prior to 6 July 2018 reflect that of RPF.

Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. Past performance is not a guide to future performance. The value of the shares and the income from them can go down as well as up and you may not get back the full amount originally invested. The value of overseas investments will be influenced by the rate of exchange.

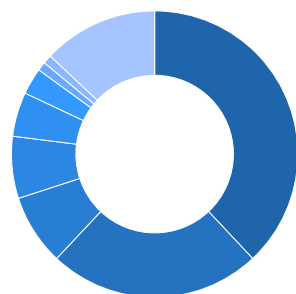
The fund's prospectus and key investor information documents are provided in English and available on request or from [www.ruffer.co.uk](http://www.ruffer.co.uk). Please note that LF Ruffer Investment Funds is a UK UCITS. The LF Ruffer Pacific & Emerging Markets Fund is not registered for distribution in any country other than the UK.

# LF Ruffer Pacific & Emerging Markets as at 31 July 2018

## Portfolio structure



Asset allocation	%		%
• Hong Kong and China	46	• Indonesian equities	2
• Sri Lanka equities	9	• Australia equities	1
• Japan equities	8	• Philippines equities	1
• Thailand equities	5	• Mexico equities	4
• Gold investments	5	• Brazil equities	2
• Asia Pacific ex Japan funds	4	• Cash	11
• Singapore equities	2		



Currency allocation	%		%
• Sterling	38	• Australian dollar	3
• Hong Kong dollar	24	• Philippines peso	1
• Sri Lanka rupee	8	• Yen	1
• US dollar	7	• Other	13
• Singapore dollar	5		

## 10 largest of 82 equity holdings

Stock	% of fund	Stock	% of fund
Longfor Properties	3.2	Li Ning	2.3
Swire Pacific	2.8	Zhuzhou CRRC Times	2.2
China Overseas Land & Investments	2.8	PICC Property & Casualty	2.2
Softbank	2.8	China Mobile	2.2
Industrial & Commercial Bank of China	2.8	Anta Sports Products	2.1

Source: Ruffer LLP

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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. Ruffer LLP 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, Key Investor Information Document and the latest report and accounts.

Fund size £406.0m

## Fund information

%	O class	C class
Ongoing Charges Figure*	1.58	1.28
Annual management charge	1.5	1.2
Maximum initial charge	5.0	5.0
Yield	0.65	0.95
Minimum investment	£1,000	
Ex dividend dates	15 Mar, 15 Sep	
Pay dates	15 May, 15 Nov	
Dealing	Weekly forward to 10am Wednesday, based on NAV Plus forward from 10am on last Wednesday of the month to last business day of the month	
Share classes	Accumulation only	
	O class	C class
ISIN	GB0034035328 (acc)	GB00B8BZHC05 (acc) GB00B7GW0G44 (inc)
SEDOL	3403532 (acc)	B8BZHC0 (acc) B7GW0G4 (inc)
Investment adviser	Ruffer LLP	
Sub advisor	Ruffer (Asia) Limited	
ACD	Link Fund Solutions Limited	
Depository	The Bank of New York Mellon (International) Limited	
Auditors	Ernst & Young LLP	
Structure	Sub-fund of LF Ruffer Investment Funds (OEIC) UK domiciled UCITS Eligible for ISAs	

\* Refers to accumulation shares

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## Fund Manager

**Mary McBain**  
INVESTMENT DIRECTOR



After graduating from Oxford University in 1985, started work at Invesco MIM as a fund manager on the Asian team. After leaving Invesco in 1990, she spent many years living and working in Asia, for GK Goh Securities, Apollo Investment Management and Ballingal Investment Advisors. She joined Ruffer in 2006 and manages the LF Ruffer Pacific & Emerging Markets Fund.

## Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 30 June 2018, assets managed by the Ruffer Group exceeded £22.3bn.

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