

LF Ruffer Total Return Fund

Positive absolute returns with low volatility

During January the fund price rose by 0.2%. This compares with a fall of 1.9% for the FTSE All-Share Index and a decrease of 2.0% for the FTSE All-Stocks Index (all figures total returns in sterling).

There is currently a tension at the heart of our analysis and this translates into the portfolio: on the one hand we are positive on the global economy, on the other, we are nervous about valuations and the technical fragilities we observe in financial markets.

The momentum of synchronous global growth across all economic zones in 2017 has carried over into 2018. Advanced economies are growing at rates last seen in the early 2000s. Several factors give us confidence this could be sustained for a while longer. Despite the US Federal Reserve raising rates, global financial conditions are getting easier, not tighter. This can be attributed to global quantitative easing, a weaker US dollar, rising equity markets and tightening credit spreads. There is a helpful fiscal tailwind across developed markets, given further impetus by President Trump's tax cuts. Labour markets are tightening gradually and we are seeing positive wage inflation. Lastly, a case can be made that we are at a favourable point in the inventory cycle with significant destocking over the last few years. It is for this reason we maintain our equity positions (albeit at an overall low weighting of 43%) and have focused on cyclical stocks.

With this rose-tinted outlook, investors might ask why we are not more bullish? The answer is our concern regarding valuations and technical stresses and skews in financial markets. Most investors accept, after nine years of zero rates and quantitative easing, that valuations across almost all asset classes have reached extraordinary levels. The wall of worry has been demolished and animal spirits are ablaze. Not convinced? Could we have experienced a cryptocurrency boom in the dark days of 2008 when trust in banks and fiat currency was at rock bottom?

The less obvious risk relates to investment behaviours that have evolved in recent years. Volatility is an obscure financial metric, having morphed from an observed output and barometer of financial stress, into a widely used input for many investment strategies. Goodhart's Law tells us 'when a measure becomes a target, it ceases to be a good measure'. We estimate at least \$1 trillion is, explicitly or implicitly, invested in assets using strategies designed to make money as volatility falls and leverages exposure to risky assets the more this continues. This self-feeding mechanism is inherently unstable and if events cause a reversal (ie a spike in volatility) the result could be a sharp sell-off in asset markets. This process is exacerbated by the rise of computer-driven trading models and passive investment, both of which are strictly rule-based and unthinking in execution. As such, it seems to us the seeds of the next financial crisis are in the fund management industry, not the banking system. The last few days of January may provide a hint of what is to come. Unlike bonds in 2008 or old-economy stocks in 2000, there are no conventional moneymaking protective assets in which to hide and thus, despite their uncomfortable cost of carry, we believe our options and illiquid strategies to be absolutely essential.

The fund's prospectus and key investor information documents are provided in English and available on request or from www.ruffer.co.uk. Please note that LF Ruffer Investment Funds is a UK UCITS. The LF Ruffer Total Return Fund is not registered for distribution in any country other than the UK. In line with the Prospectus, it is possible that at any one time the LF Ruffer Total Return Fund may invest more than 35% of its assets in transferable securities issued or guaranteed by an EEA state, one or more local authorities, a third country or a public international body to which one or more EEA States belong. The only aforementioned securities where Ruffer would currently consider holding more than 35% would be UK or US government issued transferable securities.



Investment objective

The fund aims to achieve low volatility, positive returns from an actively managed portfolio of different asset classes, including equities, bonds and currencies. Capital invested is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods. The fund may also invest in collective investment schemes, cash, money market instruments, other transferable securities and derivatives and forward transactions. Pervading this objective is a fundamental philosophy of capital preservation.

Performance since launch on 29 September 2000



Performance %	January 2018	Year to date	1 year	3 years	5 years	10 years	
O accumulation shares	0.2	0.2	0.2	11.5	24.3	103.3	
Percentage growth (O acc)	%		Share price as at 31 January 2018				p
31 Dec 2016 – 31 Dec 2017	0.6		O accumulation				440.28
31 Dec 2015 – 31 Dec 2016	13.7		O income				296.16
31 Dec 2014 – 31 Dec 2015	-0.6		C accumulation				447.61
31 Dec 2013 – 31 Dec 2014	5.7		C income				301.23
31 Dec 2012 – 31 Dec 2013	9.3						

Source: Ruffer LLP, FTSE International (FTSE)

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.

LF Ruffer Total Return Fund as at 31 January 2018

Asset allocation



Currency allocation



10 largest of 83 equity holdings*

Stock	% of fund
Mitsubishi UFJ Financial	2.1
Vivendi	2.0
BP	2.0
Lloyds Banking Group	2.0
Sumitomo Mitsui Financial	1.8
Dai-ichi Life Insurance	1.7
T&D	1.7
Sony	1.7
Tesco	1.2
HeidelbergCement	1.0

5 largest of 15 bond holdings

Stock	% of fund
UK Treasury index-linked 1.875% 2022	3.9
UK Treasury index-linked 1.25% 2055	3.8
US TIPS 0.125% 2022	3.7
UK Treasury index-linked 0.375% 2062	3.7
US TIPS 1.25% 2020	3.0

*Excludes holdings in pooled funds
Source: Ruffer LLP

Asset allocation

Asset Allocation Category	%
Cash	14
Non-UK index-linked	13
Long-dated index-linked gilts	13
Index-linked gilts	6
Gold and gold equities	5
Illiquid strategies	4
Options	1
Japan equities	17
UK equities	13
North America equities	6
Europe equities	5
Asia ex-Japan equities	3

Currency allocation

Currency Allocation Category	%
Sterling	79
US dollar	6
Yen	6
Gold	5
Other	4

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 Ruffer LLP 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. 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 £3,175.7m

Fund information

	O class	C class
Ongoing Charges Figure	1.53	1.23
Annual management charge	1.50	1.20
Maximum initial charge	5.0	5.0
Yield	1.51	1.52
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	
ISIN	GB0009684100 (acc) GB0009684878 (inc)	GB00B80L7V87 (acc) GB00B58BQH88 (inc)
SEDOL	0968410 (acc) 0968487 (inc)	B80L7V8 (acc) B58BQH8 (inc)
Investment adviser	Ruffer LLP	
ACD	Link Fund Solutions Limited	
Depository	The Bank of New York Mellon (International) Limited	
Auditors	Grant Thornton UK LLP	
Structure	Sub-fund of LF Ruffer Investment Funds (OEIC) UK domiciled UCITS Eligible for ISAs	

Dealing line

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Fund Managers

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 Ruffer Investment Company.



David Ballance

INVESTMENT DIRECTOR

Previously International Equities Head at Rothschild Private Management, he graduated from Oxford and was a Senior Investment Manager at Allied Dunbar, before moving to Threadneedle as Head of European Equities. He joined Ruffer in 2006.



Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 January 2018, assets managed by the Ruffer Group exceeded £22.7bn, of which over £14.0bn was managed in open-ended Ruffer funds.

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