

Investment monthly report – September 2017

Released 13:00 11 October 2017

Ruffer Investment Company Limited

(a closed-ended investment company incorporated in Guernsey with registration number 41996)

Attached is the investment monthly report for September 2017.

Enquiries

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Ruffer Investment Company Limited

An alternative to alternative asset management

During September, the net asset value fell by 0.6% for the month after adjusting for the 0.9p dividend declared on 15 September. This compares with a fall of 0.4% in the FTSE All-Share Index. The company now stands at a 1.7% premium.

September was rather a noisy month in the UK. The noise we allude to is not so much to the clatter of politicians returning from their summer break and getting stuck into the Brexit debate, nor is it the triumphalist cheers echoing out of Brighton from the Labour Party conference, though both were equally loud and disconcerting. Instead, by 'noise' we mean September's change of tack on interest rates by the Bank of England and the ensuing reaction in financial markets. By stating that 'monetary policy could need to be tightened by a somewhat greater extent... than current market expectations', the Monetary Policy Committee (MPC) has signalled its growing concerns on inflation. With UK inflation surprising on the upside during the month (CPI rose to 2.9% and RPI ex mortgages hit 4.1%) the MPC is caught between wanting to keep monetary policy very loose, due to Brexit concerns and weak wage growth, and the uncomfortable fact that inflation is persistently above target levels and may well rise further.

In the short-term, given how expensive government bonds are, any hint of a shift upwards in interest rates was bound to hit gilts, whether index-linked or not. Duration in our long-dated linkers always amplifies short-term moves – so the 2055 linker fell some 10% on the shift in rate views, while sterling rose about 5%. Fortunately, however, we had prepared for this by holding UK interest rate options and rate sensitive equities (banks and cyclicals) to help offset any short-term pain.

There are risks that a reversal of the emergency 0.25% cut, and a possible further rise next year, could prove insufficient to keep the inflation genie in the bottle, or be more than the UK economy can bear. Our assumption is for the former, interest rates rise a little, but as they do so, higher inflation actually shifts *real* interest rates lower. The latter outcome is possible, but we think that this comes later as further rate rises are attempted in response to stubborn inflation. At this point it becomes clear that there is little the authorities can do to stave off inflation and markets are likely to react accordingly.

Hence our description of last month's moves as 'noise' in the journey towards higher inflation and lower real interest rates. Nevertheless, it is 'noise' that needs to be guarded against as it can impact short-term performance and make it harder to hold on to the 'crown jewels' that are long-dated index-linked gilts. This lies behind our preoccupation with offsets to protect the portfolio. In the end, we see inflation on a rising path, with any interest rate rises both 'behind the curve' (so real interest rates do not rise), and eventually capped by what an indebted economy, addicted to low rates, can bear. At that point it will be clear that there is no brake on inflation and investors will suddenly, and urgently, see the need for protection. This is why we hold index-linked bonds.

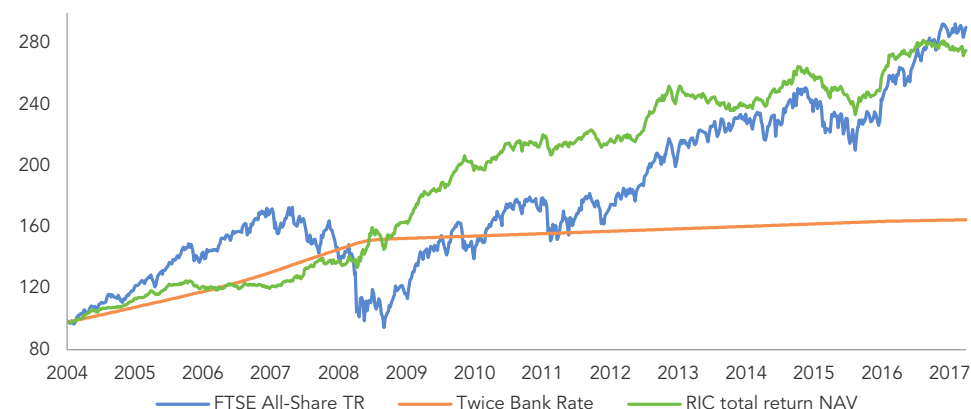


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Investment objective

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 2017	Year to date	1 year	3 years	5 years	10 years
Total return NAV	-0.6	-0.5	1.6	13.4	25.9	120.0
Share price TR ¹	-1.5	-1.1	1.6	18.5	24.5	127.4

¹Assumes re-investment of dividends

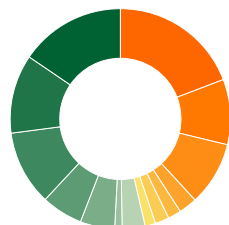
Percentage growth in total return NAV	%	As at 29 September 2017	p
30 Sep 2016 – 30 Sep 2017	1.6	Share price	229.75
30 Sep 2015 – 30 Sep 2016	10.9	Net Asset Value (NAV) per share	225.97
			%
30 Sep 2014 – 30 Sep 2015	0.7	Premium/discount to NAV	1.7
30 Sep 2013 – 30 Sep 2014	-0.6	NAV total return since inception ²	180.9
30 Sep 2012 – 30 Sep 2013	11.7	Standard deviation ³	1.88
		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 Sep 2017

Asset allocation



Asset allocation

	%
● Non-UK index-linked	15
● Index-linked gilts	12
● Long dated index-linked	11
● Cash	6
● Gold and gold equities	5
● Options	1
● Protective illiquid strategies	3
● Japan equities	19
● UK equities	10
● North America equities	9
● Europe equities	3
● Asia ex-Japan equities	2
● Other	2
● Growth illiquid strategies	2

Currency allocation

	%
● Sterling	75
● Yen	9
● US dollar	8
● Gold	5
● Other	3

Currency allocation



10 largest of 61 equity holdings*

Stock	% of fund
T&D Holdings	2.4
Lloyds Banking Group	2.2
Sumitomo Mitsui Financial Group	1.9
Mizuho Financial	1.8
Mitsubishi UFJ Finance	1.4
Walt Disney Corp	1.3
Oakley Capital	1.2
Resona Holdings	1.2
Vivendi SA	1.1
McKesson Group	1.1

5 largest of 13 bond holdings

Stock	% of fund
1.875% Treasury index-linked 2022	6.2
0.375% Treasury index-linked 2062	5.6
0.125% Treasury index-linked 208	4.9
US Treasury 0.625% TIPS 2021	4.2
US Treasury 0.125% TIPS 2023	3.6

*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.

NAV £378.3m Market capitalisation £384.6m Shares in issue 167,413,416

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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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 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 30 September 2017, assets managed by the group exceeded £21.7bn.