

LF Ruffer Absolute Return Fund

Positive absolute returns with low volatility



August 2020 Issue 174

During August, the fund price fell by 0.7%. This compared with a rise of 2.4% in the FTSE All-Share Index and a fall of 3.1% in the FTSE Govt All Stocks Index (all figures total returns in sterling).

Index-linked bonds have risen sharply since spring 2020. During August we took some profits in the longer dated US TIPS bought in March, but our conviction remains that financial repression (interest rates being kept below the rate of inflation) will be a key part of the investment landscape in the future. History shows us that equities, most bonds and cash are poor investments when inflation rises sharply, but real assets such as inflation-linked bonds and gold should do well. Let's visit the parts of the inflation jigsaw to examine what has changed since the onset of covid-19.

Supply side – disrupted supply chains and additional costs will drive prices higher. In many sectors fragmented supply chains have not recovered, bottlenecks remain and there are additional costs to protect employees and customers. The 'just in time' business model will be replaced with a 'just in case' model with greater emphasis on controlling production (ie bringing it in-house). Similarly, balance sheets will adjust by increasing cash and rainy-day reserves to weather future crises. This is all negative for profitability unless prices are increased.

Monetary/fiscal policy – money supply has gone through the roof since March, reflecting combined monetary-fiscal policy support unprecedented in scale, speed and breadth. At the same time control of the economy's steering wheel is unquestionably passing from central banks to governments. The conundrum for politicians is that reducing stimulus is not good for re-election prospects. As Milton Friedman once said 'Nothing is so permanent as a temporary government program.'

Past peak globalisation – before covid-19 the deflationary force of globalisation was already in retreat; this move has since accelerated. Trade protectionism will increase and offshoring to tap into cheap labour will become much harder. The trade war between the US and China is clear evidence of this and so is the talk of 'pay to stay' schemes in the US and Japan to encourage companies to move production back home.

Socio-political – before this year's events the need for the western world to inflate away its debt burden was desirable for reasons of demographics and wealth distribution. Now it is essential if the financial support provided during the crisis is to be remotely affordable. It is also unlikely that interest rates could rise meaningfully to counter inflationary pressures without damaging the debt-dependent economic recovery.

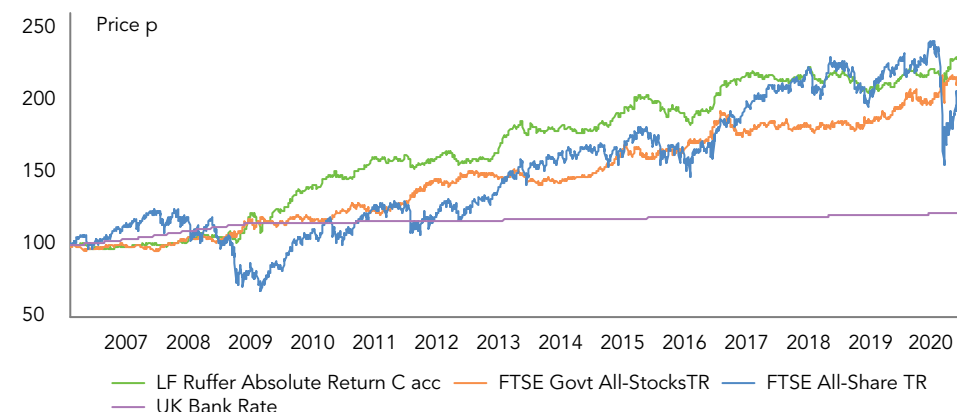
These changes all make it likely that we are entering a new economic regime, which will be one where financial repression and negative real interest rates will be the norm. Our job is to hold assets that will protect and grow our investors' capital through this period and in the aftermath. The roadmap of the last 40 years is unlikely to work; we believe index-linked bonds and gold will be key assets to hold, along with the right mix of equities and credit protection.

The fund's prospectus and key investor information documents are provided in English and available on request or from ruffer.co.uk. Please note that LF Ruffer Absolute Return Fund is a UK UCITS and 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 Absolute 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 and positive returns in all market conditions from an actively managed portfolio of equities or equity related securities (including convertibles), corporate and government 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 and derivatives and forward transactions. Pervading this objective is a fundamental philosophy of capital preservation. In selecting investments the fund will adopt a stock picking approach and will not adopt any investment weightings by reference to any benchmark.

Performance since fund launch on 31 January 2006



Performance %	August 2020	Year to date	1 year	3 years	5 years	10 years
C accumulation shares	-0.7	4.5	4.2	8.2	18.3	58.7
Percentage growth (C acc)		%	Share price as at 28 August 2020			p
30 Jun 2019 – 30 Jun 2020		7.7	O accumulation			222.47
30 Jun 2018 – 30 Jun 2019		-1.6	O income			169.12
30 Jun 2017 – 30 Jun 2018		1.2	C accumulation			232.09
30 Jun 2016 – 30 Jun 2017		8.1	C income			176.71
30 Jun 2015 – 30 Jun 2016		-0.6				

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 Absolute Return Fund as at 28 Aug 2020

Asset allocation



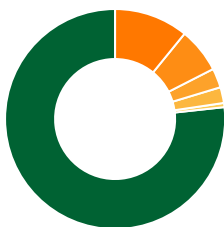
Asset allocation %

● Non-UK index-linked	22.3
● Gold and gold equities	10.5
● Long-dated index-linked gilts	10.3
● Cash	9.8
● Illiquid strategies and options	8.7
● Short-dated bonds	6.8
● Index-linked gilts	2.1
● UK equities	9.7
● Japan equities	7.8
● Europe equities	5.2
● North America equities	4.8
● Asia ex-Japan equities	1.9

Currency allocation %

● Sterling	76.7
● Gold	10.8
● US dollar	6.6
● Yen	2.8
● Euro	0.7
● Other	2.4

Currency allocation



10 largest equity holdings*

Stock	% of fund
iShares Physical Gold	2.6
Lloyds Banking Group	2.3
Wheaton Precious Metals	1.3
Kinross Gold	1.2
Tesco	1.1
American Express	1.1
ArcelorMittal	1.0
NatWest Group	0.9
Newcrest Mining	0.9
Mitsubishi Electric	0.8

5 largest bond holdings

Stock	% of fund
UK Treasury 1.5% 2021	4.7
UK Treasury index-linked 0.125% 2068	4.5
US Treasury 0.875% TIPS 2029	3.6
US Treasury 0.25% TIPS 2029	3.1
UK Treasury index-linked 1.25% 2055	2.8

*Excludes holdings in pooled funds

Source: Ruffer LLP.

Pie chart totals may not equal 100 due to rounding.

Fund size £4,369.9m

Fund information

%	O class	C class
Ongoing Charges Figure	1.52	1.22
Annual management charge	1.50	1.20
Maximum initial charge	7.5	7.5
Yield	1.58	1.58
Minimum investment	£1,000,000	
Ex dividend dates	15 Mar, 15 Sep	
Pay dates	15 May, 15 Nov	
Dealing	Weekly forward, every Wednesday where this is a business day Plus the last business day of the month	
Cut off	10am on Wednesday (where it is a business day) and the last business day of the month	
ISIN	O class GB00B0XP1H53 (acc) GB00B0XP1869 (inc)	C class GB00B0XP2X86 (acc) GB00B0XP1T75 (inc)
SEDOL	B0XP1H5 (acc) B0XP186 (inc)	B0XP2X8 (acc) B0XP1T7 (inc)
Investment adviser	Ruffer LLP	
ACD	Link Fund Solutions Limited	
Depository	The Bank of New York Mellon (International) Limited	
Auditors	Ernst & Young LLP	
Structure	Sub-fund of Asperior Investment Funds (OEIC) UK domiciled UCITS Eligible for ISAs	

Dealing line

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Enquiries

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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.



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.



Jos North

INVESTMENT DIRECTOR

Joined Ruffer in 2012, having graduated from Edinburgh University with an MA Honours in French and Spanish. He became a member of the Chartered Institute of Securities & Investment following completion of the CISI Diploma, receiving the highest mark in that year. He manages portfolios predominantly for institutional clients.



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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.

Ruffer LLP

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