LF Ruffer Absolute Return Fund

Positive absolute returns with low volatility

C class July 2023 **Issue 209**

The Federal Reserve, the IMF, the Bank of England and Goldman Sachs amongst others have moved their forecasts to suggest a soft landing, or no landing, is the most likely outcome for the global economy. A new, rosier narrative has emerged: that a recession will be avoided, and immaculate disinflation has been achieved vindicating market bulls and central bankers alike. The Nasdaq is up 37% year to date, performance to rival the dot.com boom.

This looks to us like a prime example of price action driving the narrative. Markets think a recession can be avoided because markets are going up. However, economic fundamentals continue to weaken with a reduced availability of credit, visible cracks in a previously strong labour market, and other key leading indicators such as manufacturing survey data are now in recessionary territory. Meanwhile, monetary conditions continue to tighten as global central banks raise rates and quantitative tightening (QT) continues apace. We believe that both the economy and financial ecosystem are conditioned to low interest rates and are incapable of enduring interest rates in excess of 5%.

At the same time, real yields are dramatically increasing – now as high as 3% on two year US inflation protected bonds. We have previously focused on the speed at which real yields have risen, as a guide to market fragility. This year real yields have risen slowly, but inexorably, and we think the second half of 2023 will be about discovering where the biting point is. If history is our guide, it is close.

In July, the rise in global real yields hurt inflation linked bonds. The mix of derivative protections were also a small drag. These were more than offset by our oil exposure, the biggest risk-on asset in the portfolio, which rose 14% in the month in response to further OPEC supply cuts.

On the penultimate day of the month the Bank of Japan ended their yield curve control policy. The news was met with a pop rather than a bang – the yen didn't move much. However, that pop was the starting pistol for something bigger. We have considerable exposure to the yen, directly and via derivatives, and believe these positions have a long way to run. The end of extreme monetary policy divergence, forcing all weakness through the currency, should see a material strengthening in the yen. Japanese government bond yields floating higher may be the final anchor to slip loose on global duration, which will have ripples across other capital markets.

The surge in risk appetite from the presumed economic 'all clear' has allowed credit spreads to tighten, equity market puts have become cheaper still, and equity volatility (measured by the VIX) has now fallen back to pre-covid levels. Having cost the portfolio year to date, these protections are now highly attractive and, usually, tend to be most advantageous when nobody wants them.

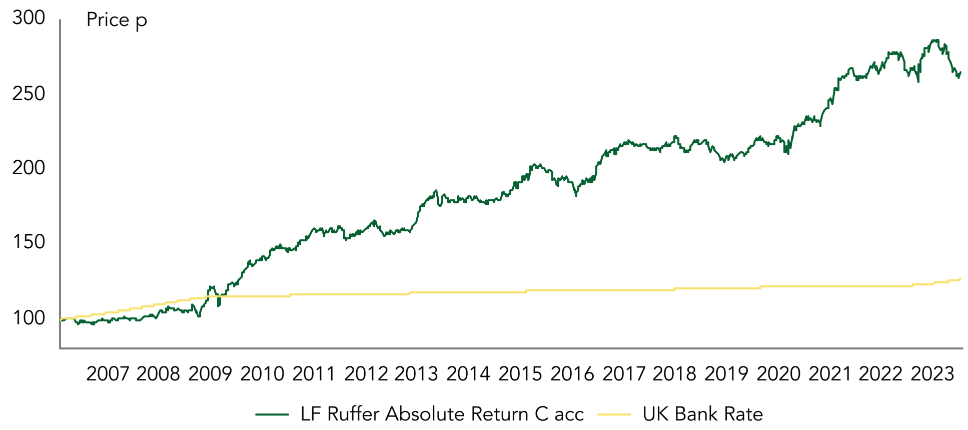
The overarching message to our investors is that we have been here before, and that feeling uncomfortable is sometimes necessary for differentiated results. We retain a high level of conviction that the portfolio is correctly positioned given the environment we see and hope to deliver on the patience and faith shown in us by our investors this year.

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.

Investment objective

To seek to achieve positive returns in all market conditions over any 12 month period, after all costs and charges have been taken. Underlying this objective is a fundamental philosophy of capital preservation. Capital invested is at risk and there is no guarantee that a positive return will be delivered over any twelve-month period.

Performance since fund launch on 31 January 2006



C accumulation shares	Performance %
July 2023	0.5
Year to date	-7.3
1 year	-0.9
3 years	13.0
5 years	20.7
10 years	45.7

Share price as at 31 July 2023	**p**
C accumulation	**264.10**
C income	**189.59**

12 month performance to June %	2019	2020	2021	2022	2023
LF Ruffer Absolute Return C acc	-1.6	7.7	13.8	1.7	-1.5
UK Bank Rate	0.7	0.6	0.1	0.4	3.2

Source: Ruffer LLP, Bloomberg. The comparator benchmark shown in this document is as stated in the fund's prospectus.

LF Ruffer Absolute Return Fund as at 31 Jul 2023

Fund size £4,073.9m

Asset allocation

Currency allocation

Asset allocation	%
Short-dated bonds	35.0
Cash	14.1
Index-linked gilts	8.8
Long-dated index-linked gilts	8.3
Non-UK index-linked	7.5
Gold exposure and gold equities	6.0
Protection strategies and options	-0.9
Commodity exposure	8.6
UK equities	5.2
North America equities	2.7
Asia ex-Japan equities	2.5
Europe equities	2.0
Other equities	0.3

Currency allocation	%
Sterling	63.2
Yen	17.6
Australian dollar	8.6
US dollar	6.7
Euro	0.2
Other	3.7

10 largest equity holdings*

Stock	% of fund
iShares MSCI China A UCITS ETF	0.9
Taiwan Semiconductor Manufacturing Co	0.6
BP	0.5
Alibaba Group Holding	0.4
Cigna	0.3
Amazon	0.3
Swire Pacific	0.3
Ambev SA	0.3
Alibaba Group ADR	0.3
Bank of Ireland	0.3

5 largest bond holdings

Stock	% of fund
US Treasury FRN 31 Jan 2025	6.7
UK Treasury index-linked 0.125% 2026	5.2
Japanese govt bonds 0.005% 1 Jun 2024	4.7
Japanese govt bonds 0.005% 1 Apr 2024	4.7
Japanese govt bonds 0.005% 1 May 2024	4.7

*Excludes holdings in Ruffer funds

Source: Ruffer LLP.
Pie chart totals may not equal 100 due to rounding.

Fund information

	%
Ongoing Charges Figure	1.21
Annual management charge	1.20
Maximum initial charge	7.5
Yield	3.3
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

	Accumulation	Income
ISIN	GB00B0XP2X86	GB00B0XP1T75
SEDOL	B0XP2X8	B0XP1T7

Investment adviser	Ruffer LLP
ACD	Link Fund Solutions Limited
Depositary	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 0345 601 9610

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Fund Managers

Steve Russell

INVESTMENT DIRECTOR

Graduated from the University of 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 co-manager of two of Ruffer's flagship funds.

Jos North

INVESTMENT DIRECTOR

Joined Ruffer in 2012 and now leads Ruffer's UK institutional business, including UK defined benefit, defined contribution and local government pension schemes, and UK charities. He is a member of the CISI, following completion of the CISI diploma and co-manages two of Ruffer's flagship funds.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 30 June 2023, assets managed by the Ruffer Group exceeded £24.6bn.