

Ruffer Fixed Income

Positive returns from fixed income



October 2016 Issue 39

Over the course of the month, the fund's C capitalisation shares rose 0.6% from £117.15 to £117.90. The US Treasury 10 year bond yield rose from 1.59% to 1.83%.

Inflation measures the change in prices over a given year. As such, inflation numbers experience a phenomena named base effect. If the price of a good which has fallen a great deal (in this case oil) stabilises, or indeed rises, the inflation numbers will pick up. We are in just such a phase now and inflation is going to be mechanically higher in the immediate future in most developed economies.

Central bank messaging is that this inflation is welcome; in the short term they won't react, letting economies run. The concept is that by doing so they can return inflation, and implicitly interest rates, to a more 'normal' level. All the major central banks have been encouraging steeper nominal interest rate curves, and, indeed, long-dated nominal yields globally have increased. Long-dated inflation-linked bonds have fared better, which has pushed up breakeven inflation. Emboldened by their success, we would expect policy makers to continue on the same tack. Our worry is that any further increase in nominal rates may take real yields with them, even if breakeven inflation increases. For this reason, we further reduced the duration of our US holdings this month by switching into shorter dated US TIPS which should benefit from the tick up in inflation described above.

In Japan, the Bank of Japan has made it clear it intends to cap 10 year rates at close to zero, until inflation has hit the 2% target 'through the cycle'. That last phrase suggests that for the cap to be lifted, inflation would have to average at least 2% for a number of years. Yet ten year inflation-linked Japanese government bonds (JGBs) have a real yield of -0.50%. When compared to a capped nominal yield of zero and the inflation target of 2% we feel these JGBs offer value to our portfolio. No-one would describe these JGBs as actively traded, but we have managed to nearly double our weighting to above 10%.

Investment objective

The investment objective of Ruffer Fixed Income is to achieve positive returns from an actively managed portfolio of predominantly fixed-income securities, variable-income securities and related instruments issued by governments and other entities, without geographical restriction.

Performance since launch on 13 August 2013 – C class shares GBP



Performance %	October 2016	Year to date	1 year	3 years	5 years	10 years
C capitalisation shares	0.6	15.7	15.8	22.4	na	na

Percentage growth (C GBP cap)	%	Share price as at 31 October 2016	£
30 Sep 2015 – 30 Sep 2016	15.2	C capitalisation GBP	117.90
30 Sep 2014 – 30 Sep 2015	3.0	C distribution GBP	117.90
30 Sep 2013 – 30 Sep 2014	3.9	Z capitalisation GBP	122.31
30 Sep 2012 – 30 Sep 2013	na	Z distribution GBP	121.03
30 Sep 2011 – 30 Sep 2012	na		

Source: Ruffer LLP

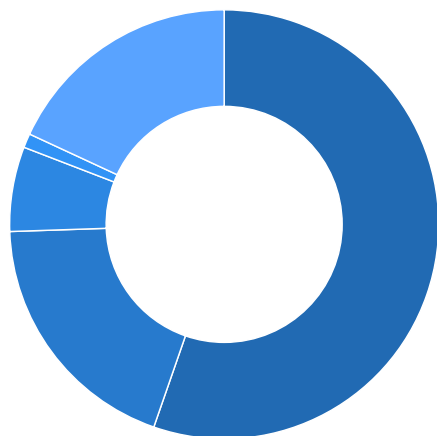
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Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. Past performance is not a guide to future performance. The value of the shares and the income from them can go down as well 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.

Ruffer Fixed Income as at 31 October 2016

Portfolio structure



	%
• US inflation-linked bonds (0-7 years)	52
• US inflation-linked bonds (over 15 years)	18
• Japan inflation-linked bonds	6
• New Zealand inflation-linked bonds	1
• Cash	17

5 largest of 20 bond holdings

Stock	% of fund
US TIPS 0.625% 2021	13.2
US TIPS 1.25% 2020	11.0
US TIPS 0.125% 2022	9.8
US TIPS 1.875% 2019	9.0
US TIPS 0.125% 2022	7.4

Source: Ruffer LLP

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Fund size £410.6m

Fund information

Ongoing Charges Figure %	Cap	Dis	
C class GBP	1.29	1.28	
Z class GBP	0.13	0.13	
%	O class	C class	Z class
Maximum annual management fee	1.5	1.2	0.0
Maximum initial charge	5.0	5.0	7.5
Minimum investment £	1,000	10m	30m
Record date	Third Monday of November		

Ex dividend dates Next NAV following the record date

Payment Within five business days after ex dividend date

Dealing Weekly, every Tuesday (if not a business day, on the following business day) Plus on the first business day of each month

Cut-off 4pm Luxembourg time on the day before valuation day (so typically Friday and the penultimate business day of the month)

ISIN	O class	C class	Z class
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Cap	LU0954199336	LU0954198791	LU0954199096
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Dis	LU0954198874	LU0954199252
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Structure Sub fund of Ruffer SICAV, a Luxembourg domiciled UCITS SICAV

Management company, administrative agent, registrar and transfer agent, paying and domiciliary agent FundPartner Solutions (Europe) S.A.

Investment manager Ruffer LLP

Custodian Pictet & Cie (Europe) S.A.

Auditors Ernst & Young S.A.

Fund Managers

Alex Lennard

INVESTMENT DIRECTOR



Joined Ruffer in 2006 after graduating from Exeter University with an honours degree in economics and finance; he is a member of the Chartered Institute for Securities & Investment. He is co-manager of Ruffer Total Return International.

Marnoch Aston

RESEARCH DIRECTOR



Joined the Financial Stability Directorate at the Bank of England in 2008, prior to which he was a founding partner of Clematis Capital. He has an MSc in Economics and Finance from Warwick University and joined Ruffer in 2012.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 October 2016, assets managed by the Ruffer Group exceeded £20.4bn, of which over £11.4bn was managed in open-ended Ruffer funds.

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