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‘Gold is a good defence against money printing’

Ruffer’s Hamish Baillie tells *Harry Brennan* about preserving wealth in a world of fear and greed

Investors are often quick to talk about the capital gains or income they have made, but many simply want somewhere to preserve their wealth through good times and bad.

The Ruffer Investment Company, one of *The Telegraph*’s top 10 defensive funds, invests in a mix of assets with the aim of providing a positive return year on year. It was one of a select group of funds to make money through the financial crisis of 2008.

Here Hamish Baillie, who runs the £406m portfolio, describes how he safeguards his clients’ money.

How is the portfolio split?

We call the fund’s two core elements fear and greed: assets that offer protection in bad times and those that will make us money in prosperous times.

On the greed side, around 41pc of the fund is currently in stocks. We are flexible in the companies we invest in, but have two strategies at play.

First, we like companies that can tap into global growth and are reasonably valued. At the moment they are hard to find. However, Japan is one place we think people are underestimating in value or simply don’t know much about. One Japanese stock we own is Mitsubishi Electric, the electronics firm. It does business all over the world, so it will do well if America continues to grow, for example. Others examples would be cyclical stocks, currently unloved, such as Cleveland-Cliffs, the iron ore processor, or those sensitive to the oil price.

Then there are growth opportunities such as Ocado. As a traditional grocer we would say it is expensive, but if looked at as a technology company it is very good value. We also have positions in cyber security companies such as Check Point and Sophos, where we see a massive growth market.

This is a bit of a break from what we have done previously, where we have had success with big consistent dividend payers such as Johnson & Johnson or Kraft Foods, the consumer goods giants.

And on the fear side?

People across the board are struggling to find protective assets that pay. When interest rates are so low it’s hard to find stores of value for leaner years.

What we really want as defensive investors is an asset that will go up in value if there is a crisis that affects the stock market. One of our biggest moves of late has been to buy protection against real interest rates going down. This is where inflation rises but central banks are not able to keep pace with an equal increase in interest rates. Our insurance against this is our position in inflation-linked bonds issued by the British and American governments.

What other defences are in place?

We have been making small increases to our gold exposure. Gold mining stocks, for example, have been hit hard by the negative sentiment surrounding emerging markets. The reason we invest in gold is that it is an asset that cannot be created at will, unlike paper currencies. It acts as a good store of wealth in a world heavily laden with debt, where central banks are injecting new money into the economy.

We also take a form of insurance on the positions we hold via derivative contracts, meaning we can cut our losses if things go wrong.

Many people see this type of derivative-based insurance as an inhibiting expense and also a drag on performance in the good times. But for us, this means we are able to buy these derivatives quite cheaply.

What have been your best and worst investments?

Our best investment was probably the Swiss franc, which helped to see us through the crisis of 2008. We made a return of around 55pc on that position at a time when stocks were falling by 30pc in some places.

The worst investments are always growth stocks. One we got wrong was Heliocentris, a German alternative fuel provider. We spent a long time engaging with the management, but it eventually went in a different direction to us and we had to exit our position.

How are you paid?

I am a partner in the business and the fund takes a 1pc flat fee. We considered performance fees briefly but decided against them.

What would you have been if not a money manager?

A groundsman in a school – I think I would find catharsis in tending a cricket strip.

CV: Hamish Baillie

YEARS MANAGING FUND: 7
ANNUALISED RETURN: 3.7PC

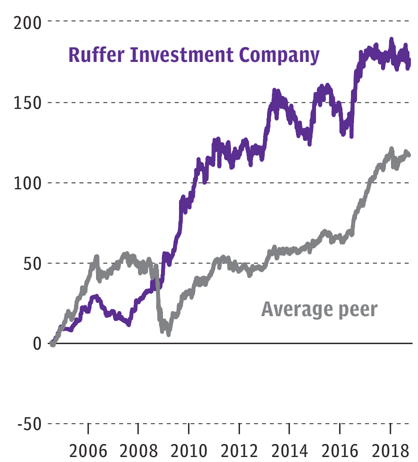
Mr Baillie joined Ruffer in 2002.

In 2009 he opened the company’s Edinburgh office, which he now manages, and is a company director.

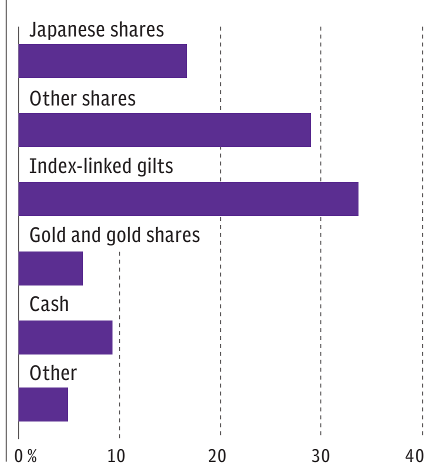
Mr Baillie studied at Trinity College Dublin.

HAMISH BAILLIE
RUFFER INVESTMENT COMPANY

Versus average peer



Asset allocation



SOURCE: FE TRUSTNET

Key facts

Launch date	July 2004
Return since manager start (2011)	28.8pc
Total return since launch (2004) (126.1pc capital growth since 2004)	176.5pc
Total return year to date	-1.8pc
Annual charge	1.18pc

Top 10 shares (as of 31/08/2018)

1. T&D	2.5pc
2=. Walt Disney	2.1pc
2=. Sumitomo Mitsui Financial	2.1pc
4. Vivendi	2pc
5. iShares Physical Gold	1.9pc
6=. Mitsubishi UFJ Financial	1.6pc
6=. Tesco	1.6pc
8=. Resona	1.5pc
8=. Mizuho Financial	1.5pc
10. Ocado	1.3pc

IN FOCUS: BANDAI NAMCO
‘A HUGE GAMING COMPANY THAT NO ONE HAS HEARD OF’

Japan’s Bandai Namco is the third largest games business in the world, but no one has ever heard of it – something that is typical of investing in the region.

When we bought our stake it had more than a third of its value in cash, which has come down to roughly a quarter. It generates a lot of cash and is very conservatively managed.

The Japanese government is in the process of issuing a corporate governance code that will put pressure on listed companies to look after their shareholders. Companies sitting on large piles of cash will increasingly have to justify the way they work and will have to reinvest in the business or give something back to shareholders. So with Bandai Namco we have a cheap stock that no one has heard of alongside the catalyst for change in Japan’s business culture. It is up by around 30pc in value since we bought it.

It is a major business and you can hold it for a long time. It will hopefully start putting its large stockpiles of cash to better use, which should help to grow the business.

It represents about 0.8pc of the fund, around £3m, and we bought in early 2017.