LF Ruffer Diversified Return Fund

Positive absolute returns with low volatility

I class February 2023 **Issue 18**

February saw the return of a 'good news is bad news' dynamic in markets as a string of positive economic surprises out of the US reignited concerns about inflation and, with it, expectations of more central bank rate hikes. This meant January's Goldilocks 'soft landing' became February's 'no landing' – a scenario in which growth remains stronger for longer, forcing interest rates to remain higher for an extended period. This was painful for most assets, with bonds suffering the most severe whiplash as global bonds followed up their best (ever) January with their worst February performance since 1990.

Whilst the bond market adjusted in real time, with yields and short-term inflation expectations rising over the month as markets priced interest rates in the US to reach 5.5% by the end of the summer (up from 4.9% at the start of the month), equities remained remarkably sanguine. At least until Valentine's Day brought stronger than expected US inflation data, hitting January's equity darlings as rate-sensitive names fell furthest (the Nasdaq fell 6.9% on the month). Against this backdrop of rising yields, the fund's long-dated inflation-linked bonds suffered, as they were not met with a commensurate rise in longer term inflation expectations. Gold, which had the additional headwind of a rising US dollar, also detracted from performance. Our protective assets offered little help as volatility and credit spreads remained subdued. Whilst a falling oil price over the period was reflected in the negative contribution from our commodity exposure, the fund's energy equities made positive returns.

The question now is whether this is just a blip in this year's risk rally, or a sign of things to come. So far, a confluence of factors has created a tactical runway for markets in the coming months. These include China re-opening, a European energy-driven rebound, US consumer resilience and positive liquidity from central banks in China, Japan, and Europe. In light of this we have used the recent weakness to add to some of our risk assets, primarily via China sensitive equities and commodities. However, we do not view this set up as sustainable for 2023 as a whole, and our positioning continues to be informed by three essential judgements: inflation can't fall back to target without recession, recession won't come without tightening financial conditions, and we won't get tighter financial conditions unless central banks are hawkish.

We are already seeing evidence a global growth rebound is inconsistent with sustained disinflation. With Fed officials having now put a 50 basis point hike back on the table, we expect both fundamentals and liquidity conditions to be challenged in the second half of the year. Hence, we have used this year's decline in volatility (equity and credit) to dial up the protection in the portfolio, using VIX calls again for the first time since 2020. What's more, equity risk premiums remain extremely depressed (at the time of writing, the yield on a six month treasury bill exceeds the earnings yield on the S&P 500) and thus our overall allocation to risk assets remains low in favour of the optionality of cash.

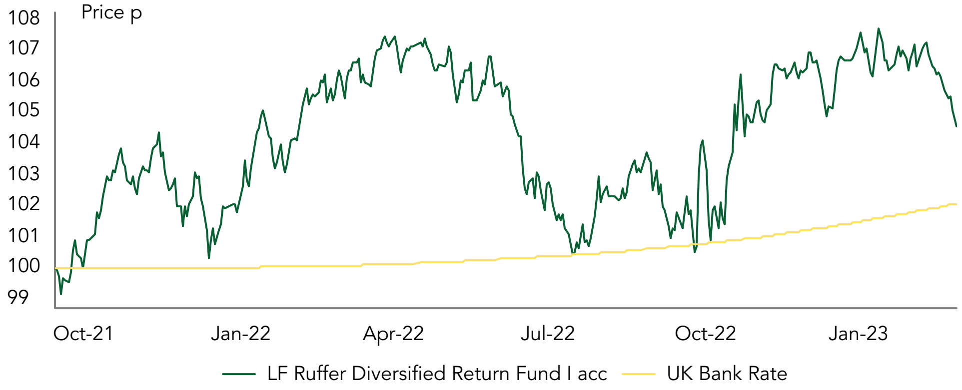
The danger today is the equity market had a narrative that it is now reluctant to abandon. We, the Fed and the bond market, it seems, have Keynes in our minds: "When the facts change, I change my mind – what do you do, sir?" So far equity markets and many investors, do not.

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 one or a number of 12 month periods.

Performance since fund launch on 15 September 2021



I accumulation shares	Performance %
February 2023	-1.7
Year to date	-2.3
1 year	-0.9

Share price as at 28 February 2023	p
I accumulation	**104.60**
I income	**103.51**

12 month performance to December %	2022
LF Ruffer Diversified Return Fund I acc	5.2
UK Bank Rate	1.5

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

LF Ruffer Diversified Return Fund as at 28 Feb 2023

Asset allocation

Currency allocation

Asset allocation	%
Short-dated bonds	28.9
Index-linked gilts	16.4
Non-UK index-linked	11.8
Cash	7.0
Long-dated index-linked gilts	5.2
Gold exposure and gold equities	3.8
Protection strategies and options	0.1
Commodity exposure	8.2
UK equities	5.8
North America equities	4.7
Europe equities	3.1
Asia ex-Japan equities	2.6
Japan equities	2.1
Other equities	0.4

Currency allocation	%
Sterling	61.6
US dollar	15.9
Yen	10.8
Australian dollar	5.2
Euro	3.8
Other	2.7

10 largest equity holdings

Stock	% of fund
BP	2.4
iShares MSCI EM Asia UCITS ETF	1.9
Shell	0.7
Haleon	0.6
Agnico Eagle Mines	0.5
Taiwan Semiconductor Manufacturing Co	0.5
Unilever	0.4
ORIX	0.4
NEC	0.4
Cigna	0.4

5 largest bond holdings

Stock	% of fund
UK Treasury index-linked 0.125% 2024	6.8
UK Treasury index-linked 2.5% 2024	6.5
US Treasury FRN 31 Oct 2024	5.2
US Treasury FRN 31 Jan 2024	5.0
US Treasury FRN 31 Oct 2023	4.9

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

Fund size £2,001.8m

Fund information

		%
Ongoing Charges Figure (capped)		0.92
Annual management charge		0.90
Yield (historic)		1.01
Minimum investment		£50,000,000
Ex dividend dates		15 Mar, 15 Sep
Pay dates		15 May, 15 Nov
Dealing frequency		Daily
Valuation point		12:00
	Accumulation	Income
ISIN	GB00BMWLQW82	GB00BMWLQV75
SEDOL	BMWLQW8	BMWLQV7
Investment manager		Ruffer LLP
Auditors		Ernst & Young LLP
Authorised Corporate Director		Link Fund Solutions
Depository		The Bank of New York Mellon (International) Limited
Structure		Sub-fund of LF Ruffer Managed Funds (OEIC) UK domiciled UCITS Eligible for ISAs

Dealing line 0345 601 9610

Enquiries

Ruffer LLP
80 Victoria Street
London SW1E 5JL

+44 (0)20 7963 8254
rif@ruffer.co.uk
ruffer.co.uk

DYNAMIC PLANNER PROFILED 4

defaqto 4 RISK RATING CAUTIOUS BALANCED

Fund Managers

Duncan MacInnes

INVESTMENT DIRECTOR

Joined Ruffer in 2012. He graduated from the University of Glasgow School of Law in 2007 and spent four years working at Barclays in Glasgow, London and Singapore. He is a CFA charterholder and co-manager of two of Ruffer's flagship funds.

Ian Rees

INVESTMENT DIRECTOR

Joined Ruffer in 2012, after graduating from the University of Bath with an honours degree in economics. He spent 2017 in Ruffer's Hong Kong office working as an equity analyst covering emerging markets, and is a CFA charterholder.

Fund Specialist

Jasmine Yeo

INVESTMENT MANAGER

Joined Ruffer in 2017, having graduated with a degree from Warwick Business School. She is a member of the CISI, following completion of the CISI Masters in Wealth Management. She has managed private client portfolios and now works with wealth managers and advisors as part of Ruffer's UK wholesale team. She is co-manager of one 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 31 January 2023, assets managed by the Ruffer Group exceeded £26.5bn.