

Ruffer Investment Company Limited

An alternative to alternative asset management



August 2020 Issue 183

During August, the net asset value of the Company fell by 0.3%. This compares with a rise of 2.4% in the FTSE All-Share index.

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. If this is correct it will have widespread investment ramifications. 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.

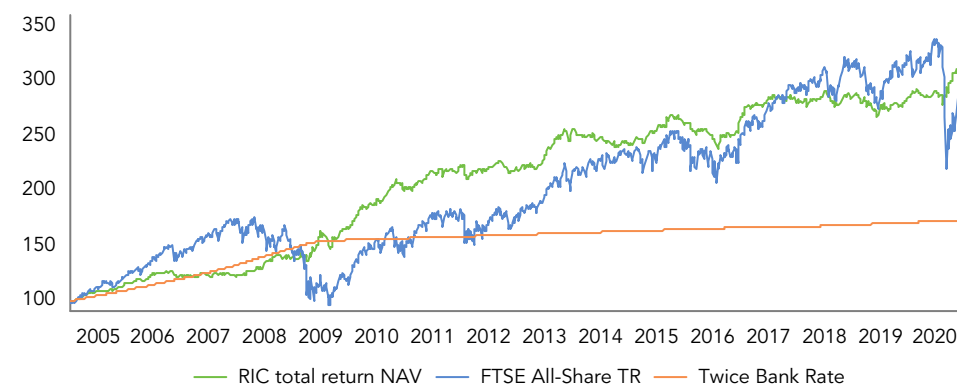
These changes all make it likely that we are entering a new economic regime, which will be one where financial repression and negative real interest rates will be the norm. Our job is to hold assets that will protect and grow our investors' capital through this period and in the aftermath. The roadmap 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.

Our shareholder webinar is on 17 September. Please email events@ruffer.co.uk for details.

Investment objective

The principal objective of the Company is to achieve a positive total annual return, after all expenses, of at least twice the Bank of England Bank Rate by investing predominantly in internationally listed or quoted equities or equity related securities (including convertibles) or bonds which are issued by corporate issuers, supranationals or government organisations.

Performance since launch on 8 July 2004



Performance %	August 2020	Year to date	1 year	3 years	5 years	10 years
Total return NAV	-0.3	7.6	7.9	11.3	22.1	55.9
Share price TR ¹	-0.4	7.2	7.8	7.9	15.1	44.1

¹Assumes re-investment of dividends

Percentage growth in total return NAV	%	As at 31 August 2020	p
30 Jun 2019 – 30 Jun 2020	10.1	Share price	240.00
30 Jun 2018 – 30 Jun 2019	-0.9	Net Asset Value (NAV) per share	247.96
30 Jun 2017 – 30 Jun 2018	0.8	Premium/discount to NAV	-3.2
30 Jun 2016 – 30 Jun 2017	8.8	NAV total return since inception ²	214.2
30 Jun 2015 – 30 Jun 2016	-1.0	Standard deviation ³	1.87
		Maximum drawdown ³	-8.62

Source: Ruffer LLP, FTSE International (FTSE) †

²Including 39.0p of dividends ³Monthly data (total return NAV)

Ruffer Investment Company Limited as at 28 Aug 2020

Asset allocation



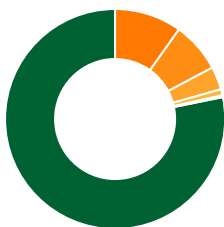
Asset allocation

	%
Non-UK index-linked	19.7
Cash	14.4
Illiquid strategies and options	11.0
Gold and gold equities	9.9
Long-dated index-linked gilts	9.1
Index-linked gilts	4.9
UK equities	13.6
Japan equities	6.8
North America equities	6.1
Europe equities	3.8
Asia ex-Japan equities	0.6

Currency allocation

	%
Sterling	78.2
Gold	9.9
US dollar	7.4
Yen	3.3
Euro	0.9
Other	0.3

Currency allocation



10 largest equity holdings*

Stock	% of fund
Lloyds Banking Group	2.0
Tesco	1.5
Walt Disney	1.4
ArcelorMittal	1.3
Kinross Gold	1.2
IamGold	1.1
General Motors	1.0
American Express	0.9
NatWest Group	0.9
Fujitsu	0.9

5 largest bond holdings

Stock	% of fund
US Treasury 1.75% TIPS 2028	5.5
UK Treasury index-linked 1.875% 2022	4.9
UK Treasury index-linked 0.125% 2068	4.9
UK Treasury index-linked 0.375% 2062	4.2
US Treasury 0.875% TIPS 2029	3.0

*Excludes holdings in pooled funds

Source: Ruffer LLP.

Pie chart totals may not equal 100 due to rounding.

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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 and the latest report and accounts. The Key Information Document is provided in English and available on request or from www.ruffer.co.uk.

NAV £448.3m Market capitalisation £433.9m Shares in issue 180,788,416

Company information

Annual management charge (no performance fee)	1.0%
Ongoing Charges Figure*	1.07%
Ex dividend dates	March, September
NAV valuation point	Weekly, every Tuesday and the last business day of the month
Stock ticker	RICA LN
ISIN GB00B018CS46	SEDOL B018CS4
Administrator	Praxis Fund Services Limited
Broker	Investec
Custodian	Northern Trust (Guernsey) Limited
Company structure	Guernsey domiciled limited company
Share class	£ sterling denominated preference shares
Listing	London Stock Exchange
NMPI status	Excluded security
Wrap	ISA/SIPP qualifying
Discount management	Share buyback Discretionary redemption facility

* As at December 2019

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Fund Managers

Hamish Baillie

INVESTMENT DIRECTOR

A graduate of Trinity College Dublin, he joined the Ruffer Group in 2002. Founded and manages the Edinburgh office of Ruffer LLP and is a director of Ruffer (Channel Islands) Limited. He is a member of the Chartered Institute for Securities & Investment.



Duncan MacInnes

INVESTMENT DIRECTOR

Joined Ruffer in 2012. He graduated from Glasgow University School of Law in 2007 and spent four years working at Barclays Wealth and Barclays Capital in Glasgow, London and Singapore. Duncan is a CFA charterholder.



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Ruffer LLP

The Ruffer Group manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 July 2020, assets managed by the group exceeded £20.4bn.