

Ruffer Investment Company Limited

An alternative to alternative asset management



February 2018 Issue 153

During February, the net asset value of the Company fell by 1.1%. This compares with a fall of 3.3% in the FTSE All-Share Total Return Index. Following the month end, the board announced that a dividend of 0.9p per share will be paid on 23 March.

Last month we commented on the inherent instability observable in financial markets, noting that volatility seemed likely to be at the heart of any market setback, and so, somewhat faster than expected, it turned out. On the back of seemingly 'good' news from the US, in the form of better jobs and wages data, bond yields rose, equity prices fell and volatility spiked up to what would normally be viewed as 'crisis' levels. The proximate reasons for this spike in volatility: the demise of exchange-traded funds (ETFs) explicitly shorting the VIX index and widespread use of implicit 'short volatility' strategies, have all been well documented. Although stock markets recovered some poise by the end of the month, we believe that the outsized move in volatility has laid bare an underlying fragility in equity markets. Investors' portfolios are probably more risky than they believe and low volatility has been a key element of this. During the month we took some profits in our volatility options, but consistent with holding this as crisis protection, were unwilling to cash in all our initial gains on what remained just a market correction. These gains offset some losses in our equity holdings, but were insufficient to keep the performance in positive territory for the month overall.

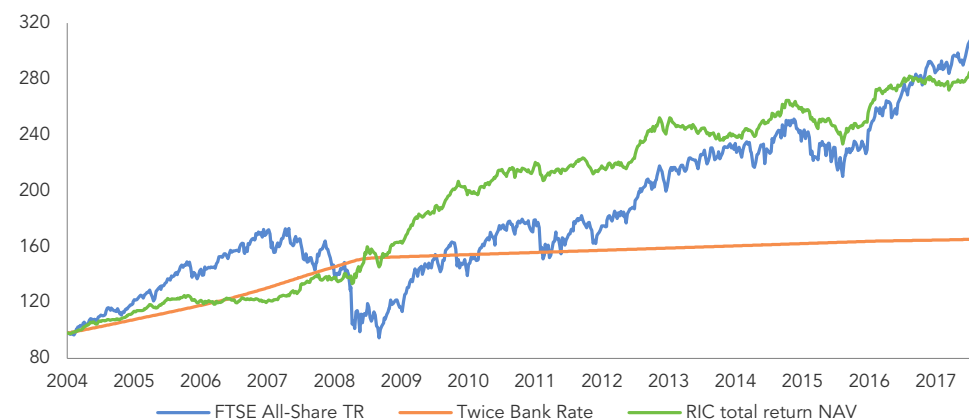
Whilst February's 'vol shock' may turn out to have been no more than a temporary tremor in financial markets, it underlines the difficulties in protecting portfolios in a period when equity market declines are unlikely to be offset by rising bond prices. Indeed, in contrast to all the previous episodes this century when volatility has spiked higher, this market 'tremor' saw supposedly safe haven assets, such as US government bonds and gold, post losses alongside stock markets.

All this meant that Jay Powell, the new Chairman of the Federal Reserve, had a rather uncomfortable first day in office, coinciding as it did with the volatility spike and a sharp drop in stock markets. Any sense of relief on passing a difficult initiation is likely to be short-lived however and we believe the new chairman finds himself in the difficult position of being 'damned if he does and damned if he doesn't'. If the US Federal Reserve raises interest rates faster or further than the market currently expects, then there is a real danger this is more than an indebted global economy can tolerate, and certainly more than fragile financial markets can bear. If the Fed, fearful of the impact on both the financial and real economy, shies away from tightening financial conditions sufficiently, then inflation pressures are likely to mount and both equity and bond markets could sell-off regardless. Our index-linked bonds stand guard against higher inflation, but protecting against the potholes in the journey to inflation could be problematic. Accordingly, we have trimmed back equity holdings to below 40% and added to our dollar exposure. We fear markets may get more, rather than less, dangerous as the year progresses.

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 %	February 2018	Year to date	1 year	3 years	5 years	10 years
Total return NAV	-1.1	-1.4	-0.7	8.2	17.2	102.6
Share price TR ¹	-2.3	-1.8	-1.7	7.4	15.5	116.0

¹Assumes re-investment of dividends

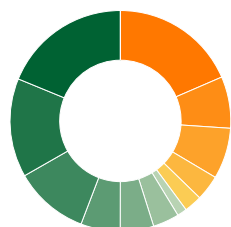
Percentage growth in total return NAV	%	As at 28 February 2018	p
31 Dec 2016 – 31 Dec 2017	1.6	Share price	231.00
31 Dec 2015 – 31 Dec 2016	12.4	Net Asset Value (NAV) per share	227.65
31 Dec 2014 – 31 Dec 2015	-1.0		%
31 Dec 2013 – 31 Dec 2014	1.8	Premium/discount to NAV	1.5
31 Dec 2012 – 31 Dec 2013	9.5	NAV total return since inception ²	182.9
		Standard deviation ³	1.86
		Maximum drawdown ³	-8.61

Source: Ruffer AIFM Limited, FTSE International (FTSE)[†]

²Including 34.5p of dividends ³Monthly data (total return NAV)

Ruffer Investment Company Limited as at 28 Feb 2018

Asset allocation



Asset allocation	%
• Cash	19
• Non-UK index-linked	14
• Long dated index-linked	11
• Index-linked gilts	6
• Gold and gold equities	5
• Illiquid strategies	4
• Options	1
• Japan equities	18
• North America equities	8
• UK equities	7
• Asia ex-Japan equities	4
• Europe equities	3
Currency allocation	%
• Sterling	69
• US dollar	15
• Yen	7
• Gold	5
• Other	4

Currency allocation



10 largest of 50 equity holdings*

Stock	% of fund
T&D Holdings	2.6
Sumitomo Mitsui Financial Group	2.2
Mizuho Financial	1.9
Mitsubishi UFJ Finance	1.9
Vivendi SA	1.8
Resona Holdings	1.5
Walt Disney	1.3
Japan Post Holdings	1.2
Lloyds Banking Group	1.1
Apple	1.0

5 largest of 9 bond holdings

Stock	% of fund
0.375% Treasury index-linked 2062	5.6
0.125% Treasury index-linked 2068	4.9
1.875% Treasury index-linked 2022	4.0
US Treasury 0.625% TIPS 2021	4.0
US Treasury 0.125% TIPS 2023	3.4

*Excludes holdings in pooled funds
Source: Ruffer AIFM Limited

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The information contained in this document does not constitute investment advice and should not be used as the basis of any investment decision. References to specific securities are included for the purposes of illustration only and should not be construed as a recommendation to buy or sell these securities. RAIFM has not considered the suitability of this fund against any specific investor's needs and/or risk tolerance. If you are in any doubt, please speak to your financial adviser.

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 £393.4m Market capitalisation £399.1m Shares in issue 172,788,416

Company information

Annual management charge (no performance fee)	1.0%
Total Expense Ratio*	1.18%
Ex dividend dates	March, September
NAV valuation point	Weekly – Friday midnight Last business day of the month
Stock ticker	RICA LN
ISIN	GB00B018CS46
SEDOL	B018CS4
Investment Manager	Ruffer AIFM Limited
Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited
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

*Audited at 30 June 2017

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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.



Steve Russell

INVESTMENT DIRECTOR

Graduated from 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 also co-manager of the LF Ruffer Total Return Fund.



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.



Ruffer

The Ruffer Group manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 28 February 2018, assets managed by the group exceeded £22.5bn.