



Protecting capital: then, now and in the future

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27 APRIL 2022

“The greatest danger in times of turbulence is not the turbulence. It is to act with yesterday’s logic.”

Peter Drucker



Rules of the game



Win by not losing



Balance attack and defence



Position pieces to profit



Adapt to phase of the game



Don't depend on luck



Queen's gambit – not just advancement



Each piece has a unique role

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Why avoid
the
downside

A focus on protecting capital

TWO SIMPLE INVESTMENT OBJECTIVES...

1 Not to lose money on any
12 month rolling basis

Aiming to provide
genuine protection in
times of market stress

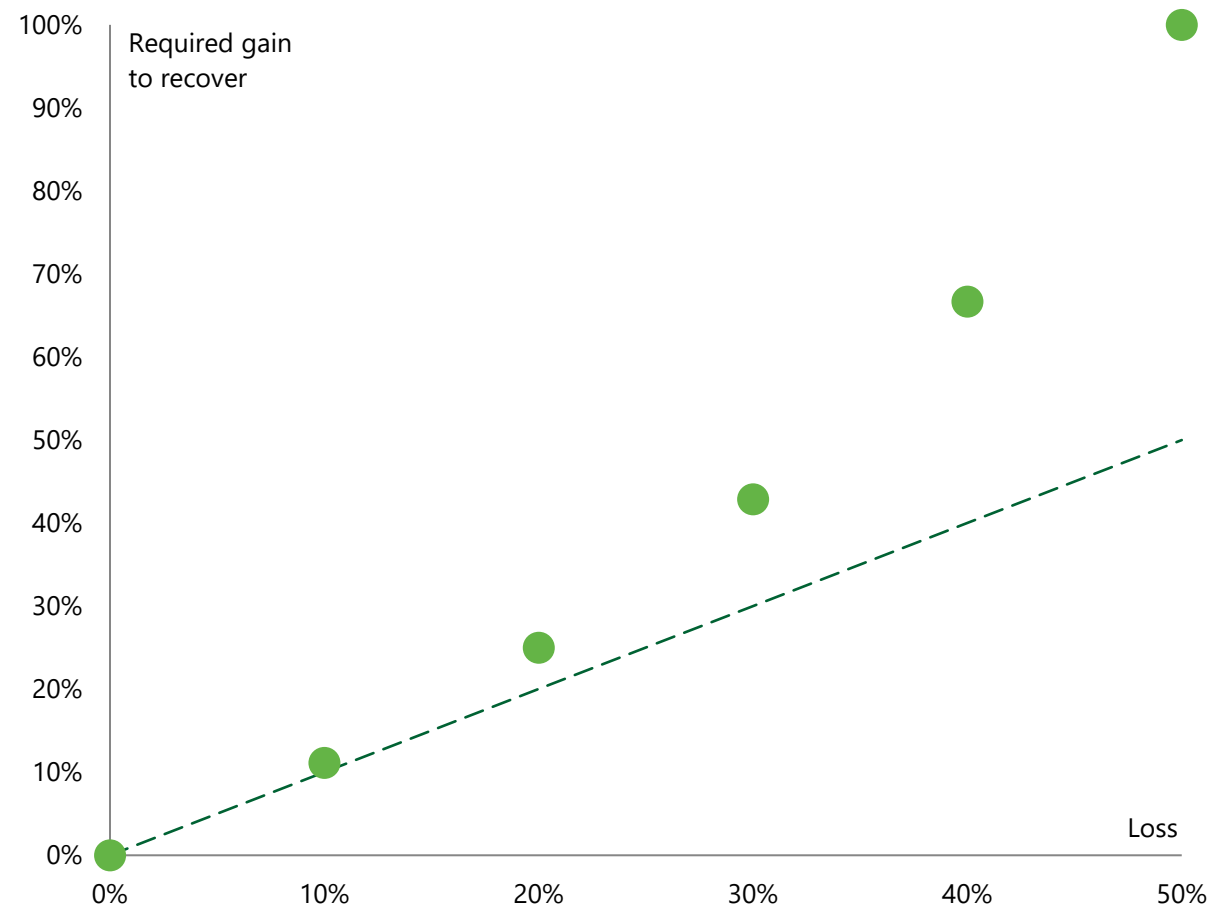
2 Generate returns
meaningfully ahead
of the return on cash

Positive returns
throughout a market cycle

...HAVE ENABLED US TO OUTPERFORM GLOBAL STOCK MARKETS OVER 27 YEARS

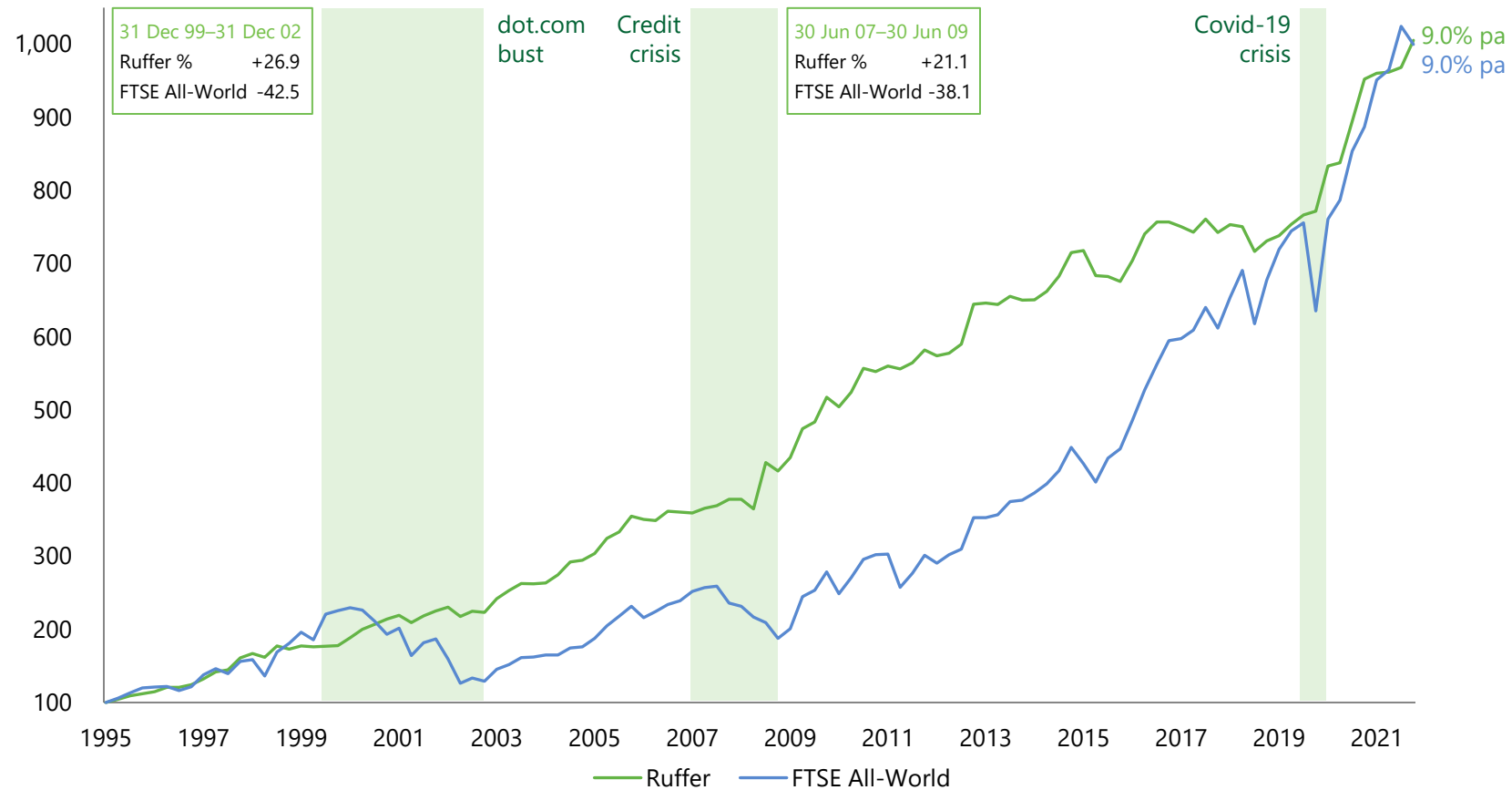
Drawdowns are difficult to overcome

AND MAY RESULT IN GREATER RISK-TAKING



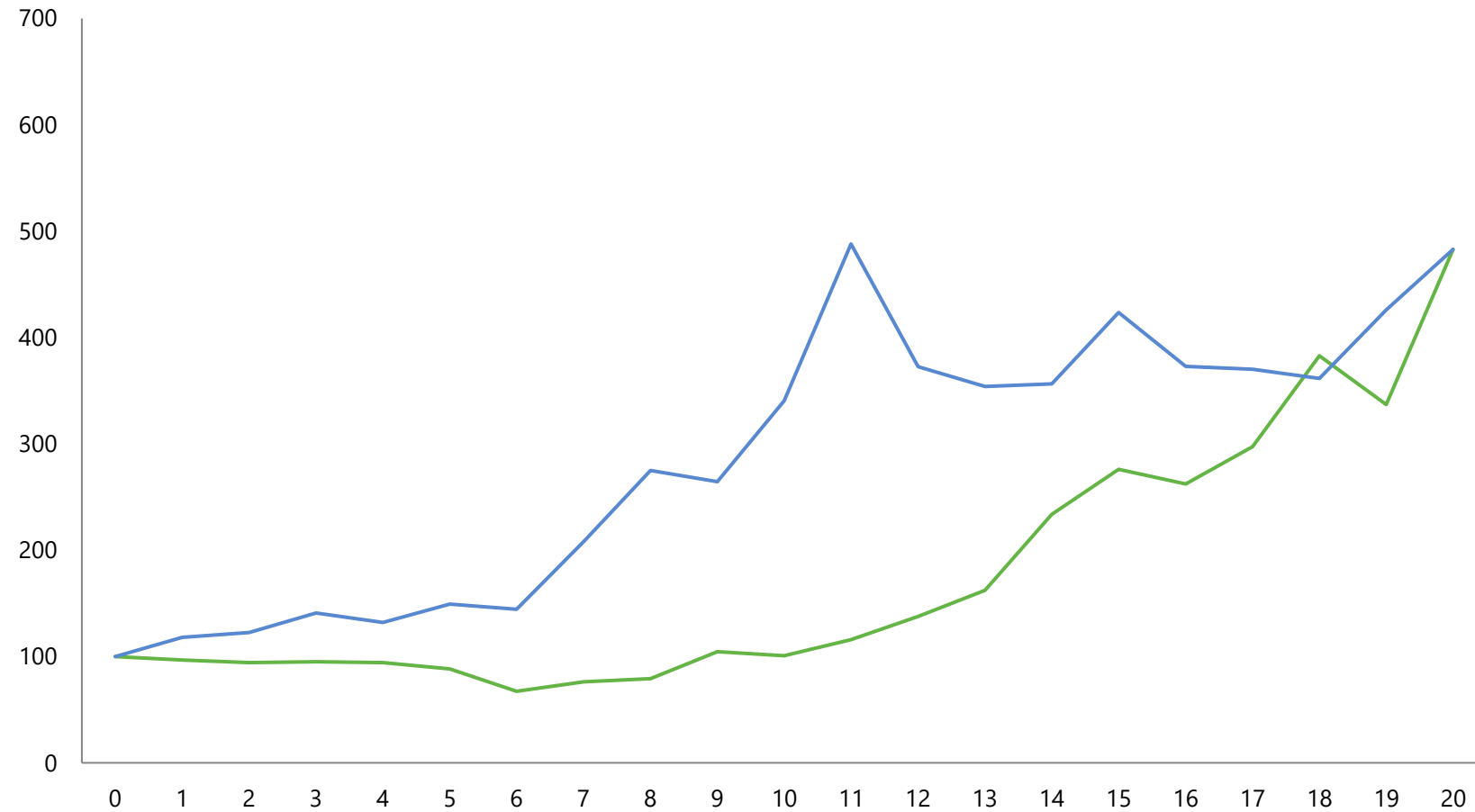
Win by not losing?

RUFFER PERFORMANCE VERSUS FTSE ALL-WORLD INDEX 1995–2022



Source: Ruffer, FTSE International, Bloomberg. Cumulative performance from 30 June 1995 data to 31 March 2022, in pounds sterling. Performance data is included in the appendix. All figures include reinvested income. All references to Ruffer performance refer to Ruffer's representative portfolio which is an unconstrained segregated portfolio following Ruffer's investment approach. Ruffer performance is shown after deduction of all fees and management charges. Calendar quarter data has been used up to the latest quarter end and monthly data thereafter.

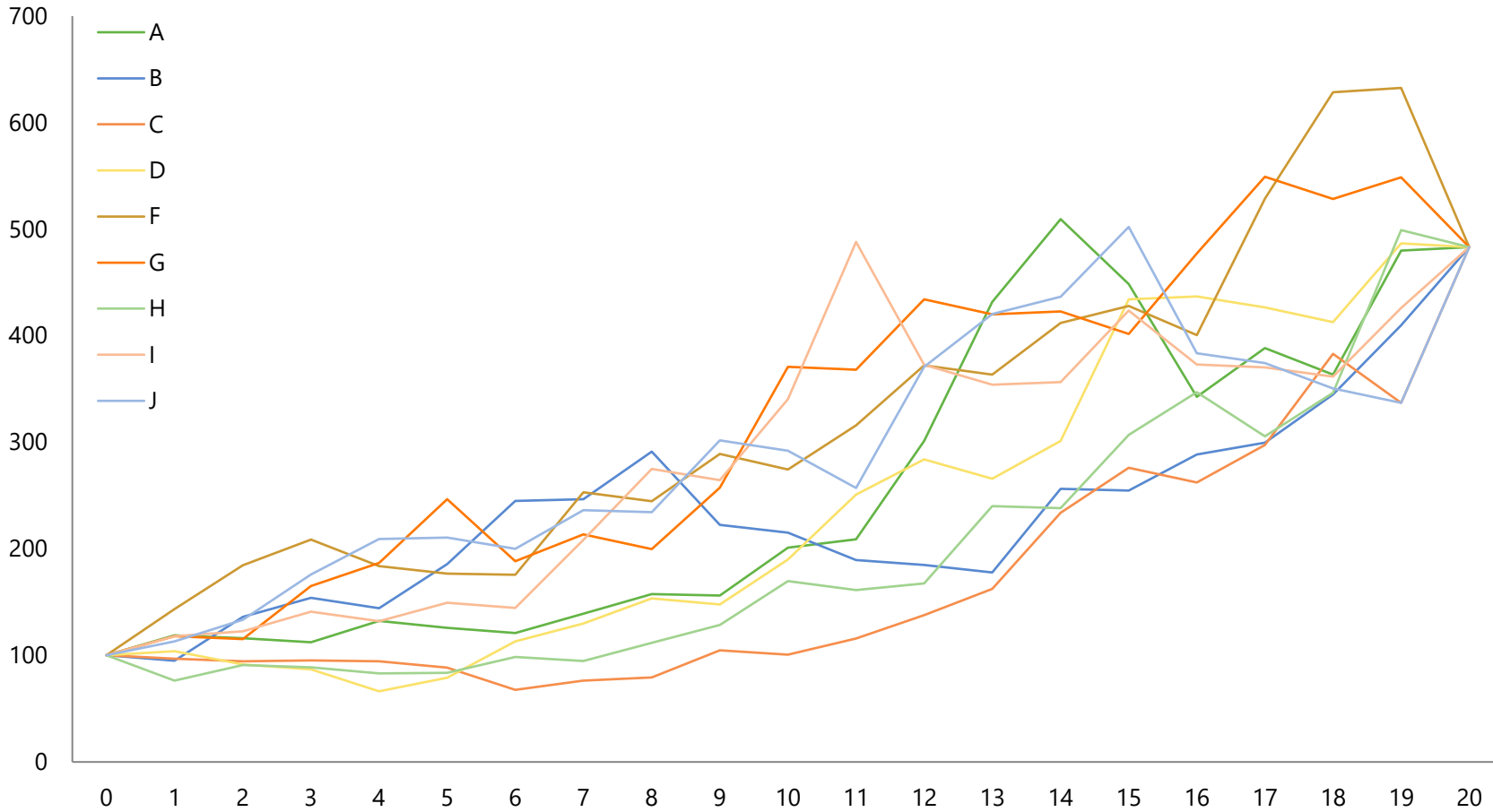
Which asset would you prefer?



Return 8% pa
Volatility 18% pa

Does sequence of returns matter?

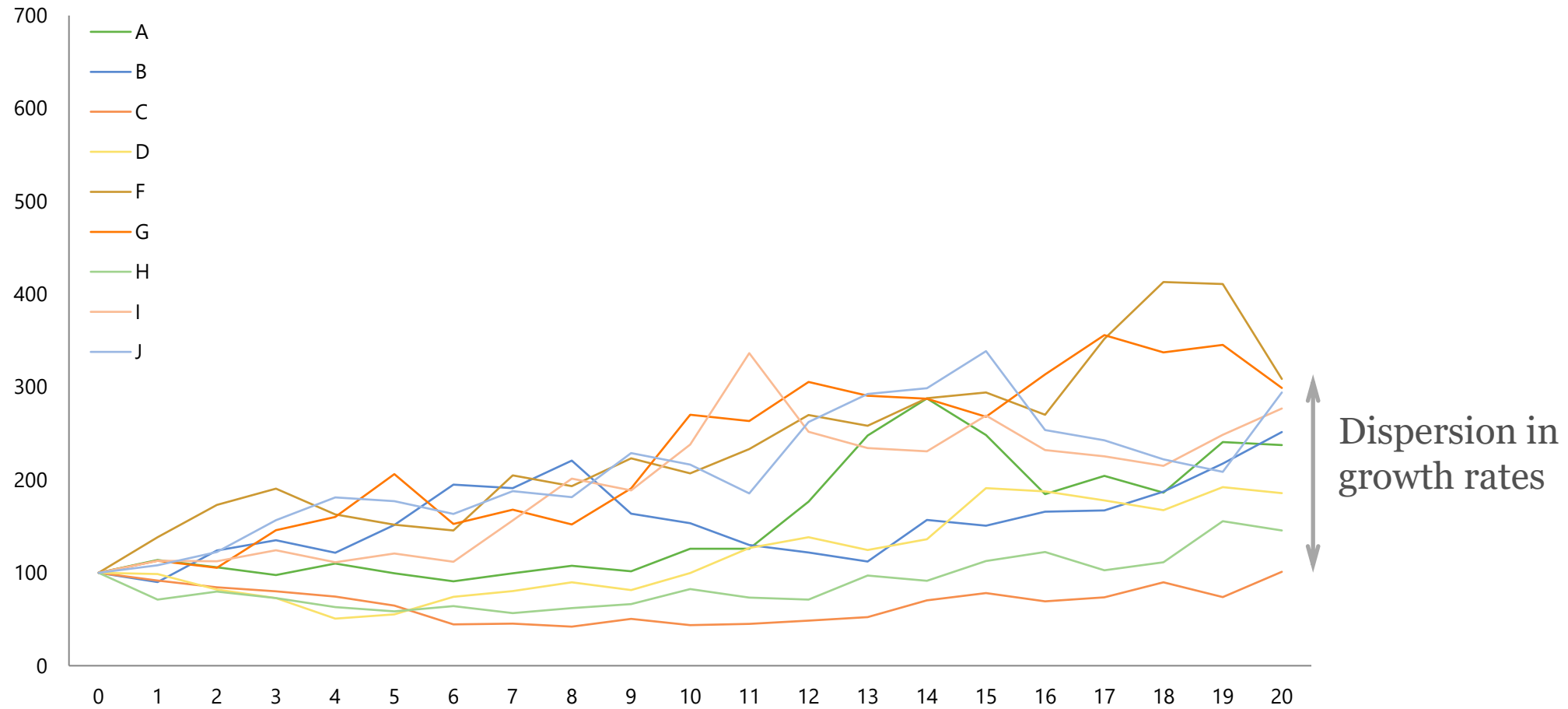
RANDOM COMBINATIONS OF THE SAME SET OF RETURNS



Return 8% pa
Volatility 18% pa

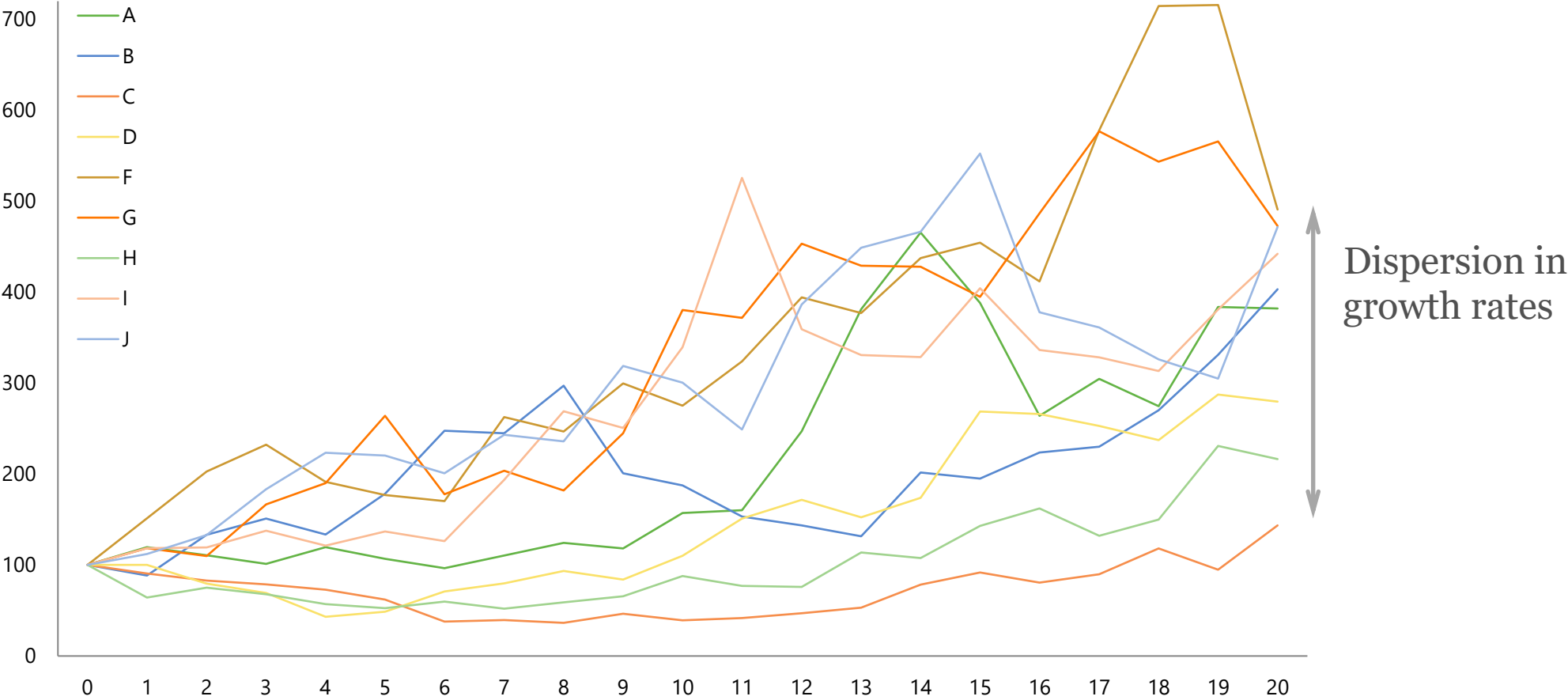
Withdrawals introduce uncertainty

£5 WITHDRAWN AT THE END OF EACH PERIOD



And volatility even more

£5 WITHDRAWN AT THE END OF EACH PERIOD, VOLATILITY 30% HIGHER



Rules of the game



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Balance attack and defence



Position pieces to profit



Adapt to phase of the game



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Queen's gambit – not just advancement



Each piece has a unique role

Constructing
portfolios

Portfolio construction



Portfolio constructed around key insights

Risk assets to grasp opportunities

Defensive assets to mitigate disasters

Protective instruments to address tail risk

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Lessons from previous inflection points

Avoidance of overvalued areas

Protective positions well in advance

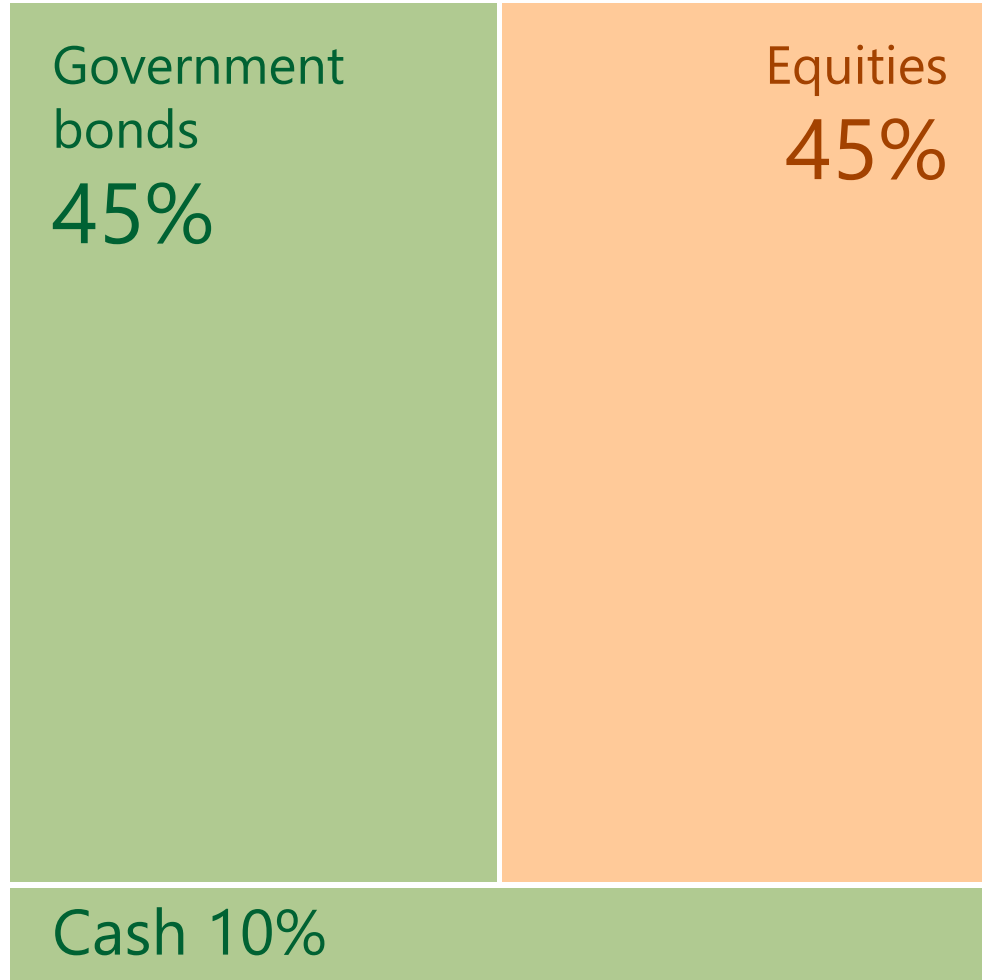
Offsetting qualities of assets

Moving quickly and with agility

Opportunities in aftermath



dot.com bubble – how we were positioned

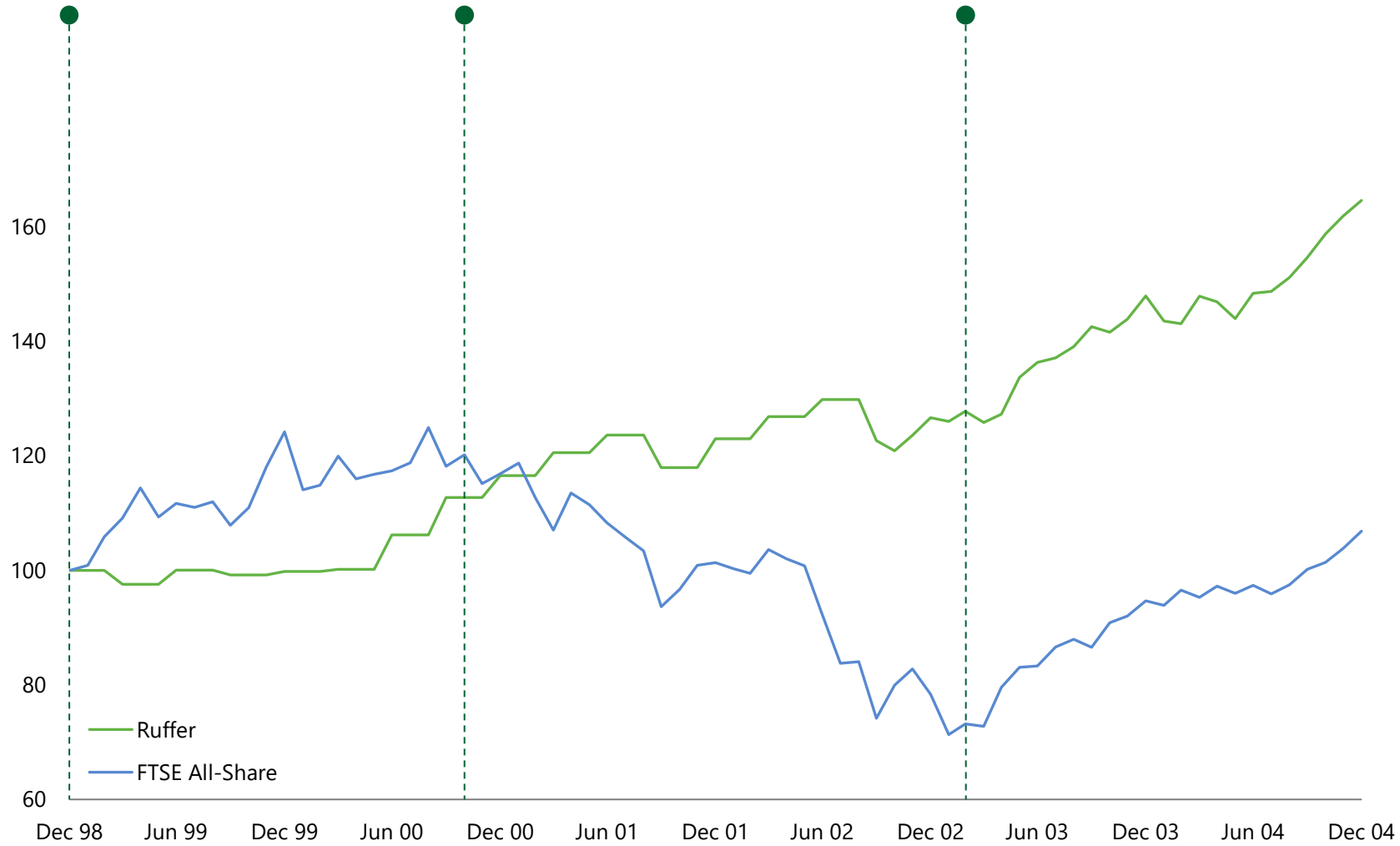


Out of favour stocks

Highly rated UK and European debt

Sterling and euro exposure high

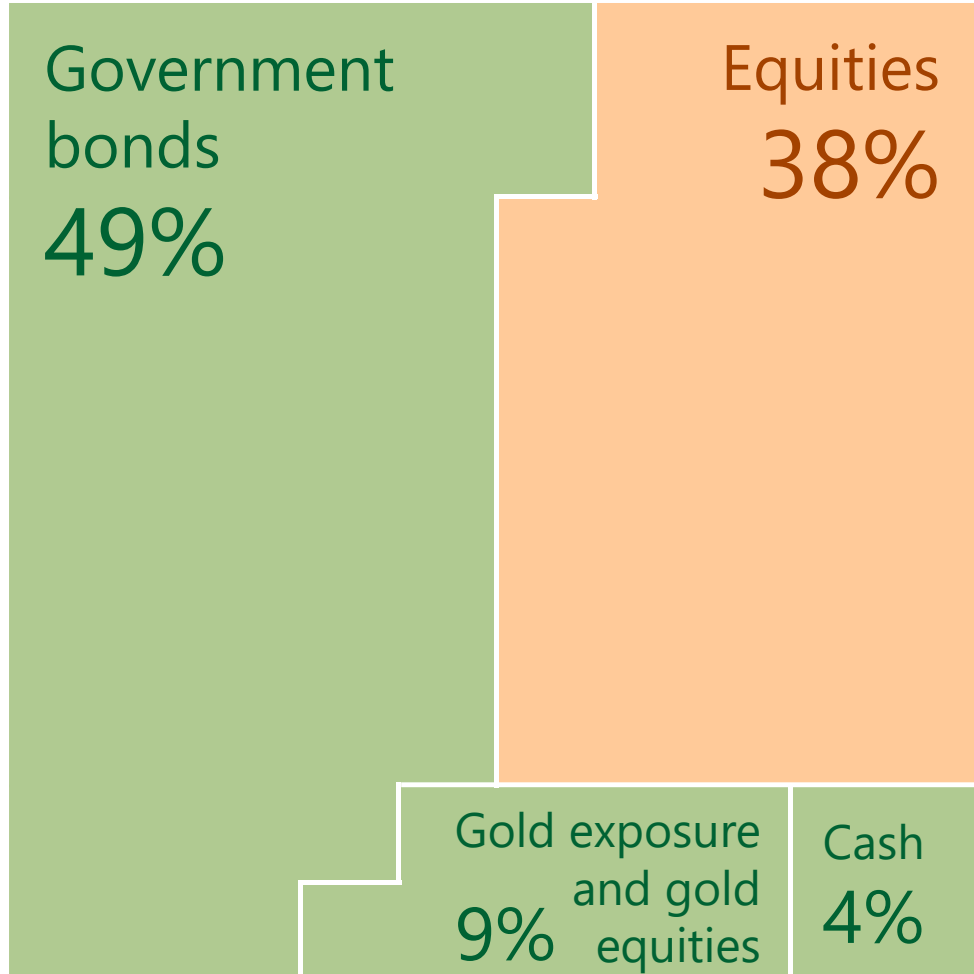
Performance during the dot.com bubble



Source: Ruffer, FactSet, data from Dec 98 to December 2004. All figures include reinvested income. All references to Ruffer performance refer to Ruffer's representative portfolio which is an unconstrained segregated portfolio following Ruffer's investment approach. Ruffer performance is shown after deduction of all fees and management charges.



Global financial crisis – how we were positioned

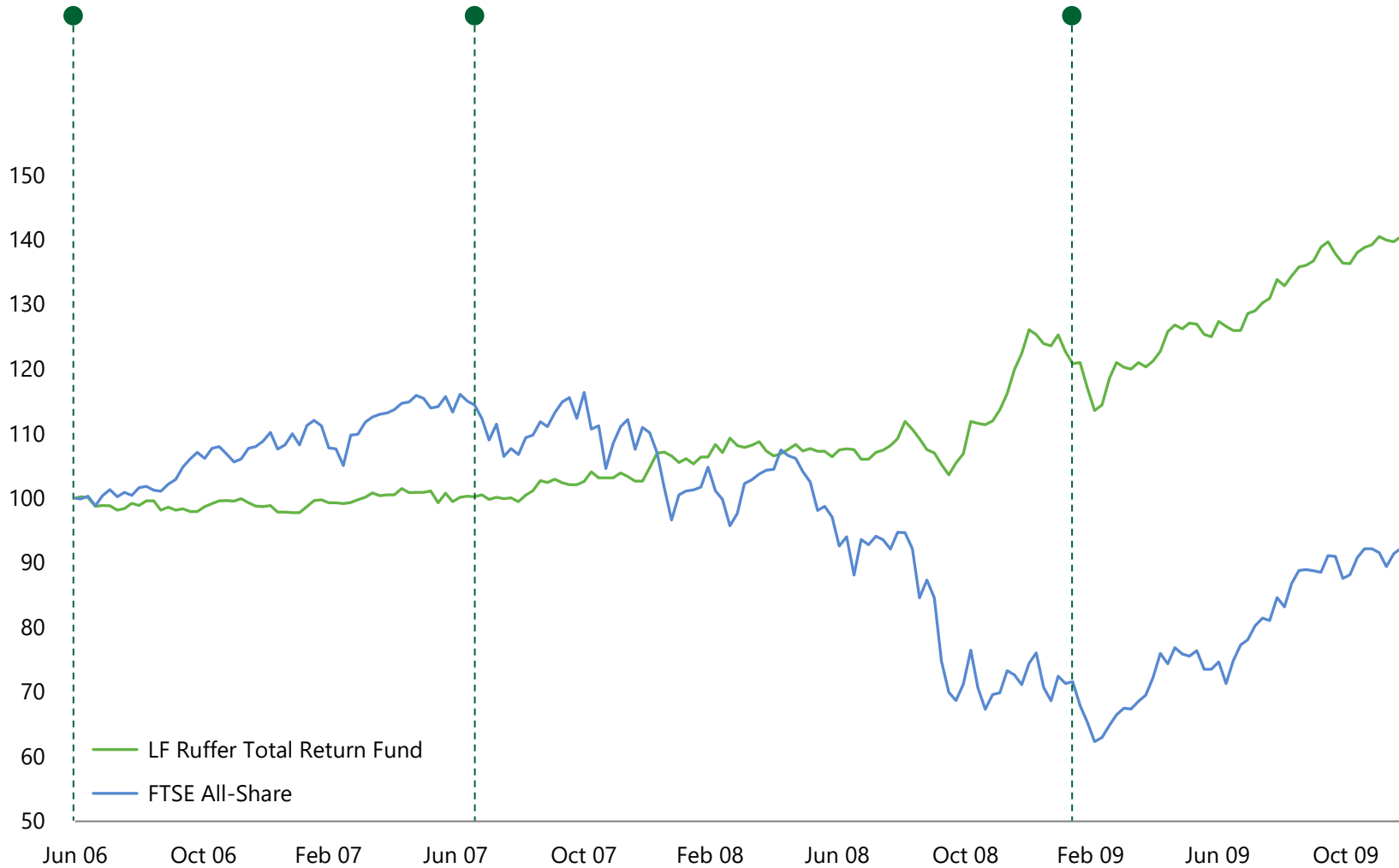


Defence equities,
Japanese domestic

Short dated bonds,
Swiss, Norway, UK

Positions in the yen
and Swiss franc

Performance during the global financial crisis

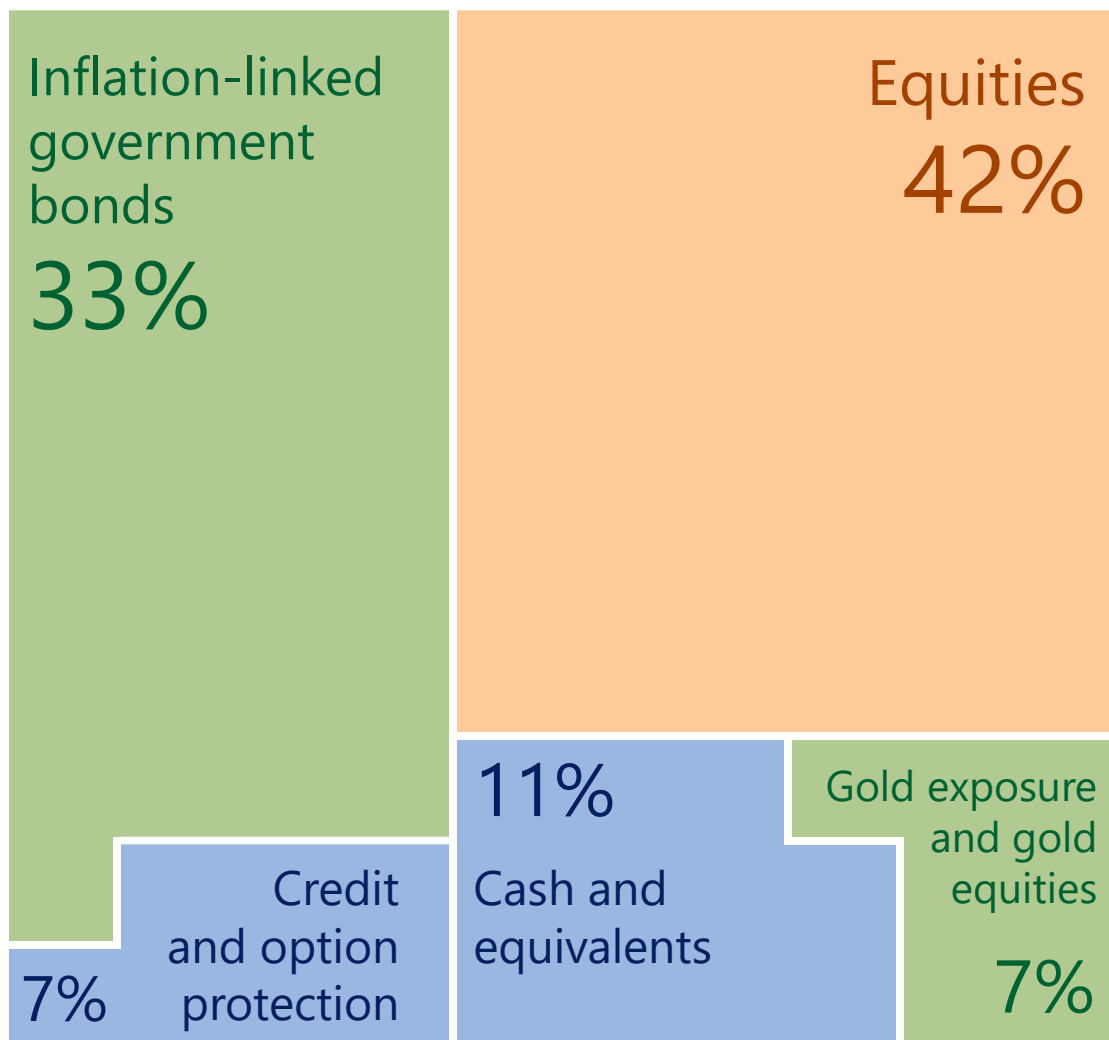


Source: Ruffer, FactSet, data from June 06 to December 2009. All figures include reinvested income. Ruffer performance is shown after deduction of all fees and management charges.



COVID-19 +
coronavirus -

Covid-19 – how we were positioned

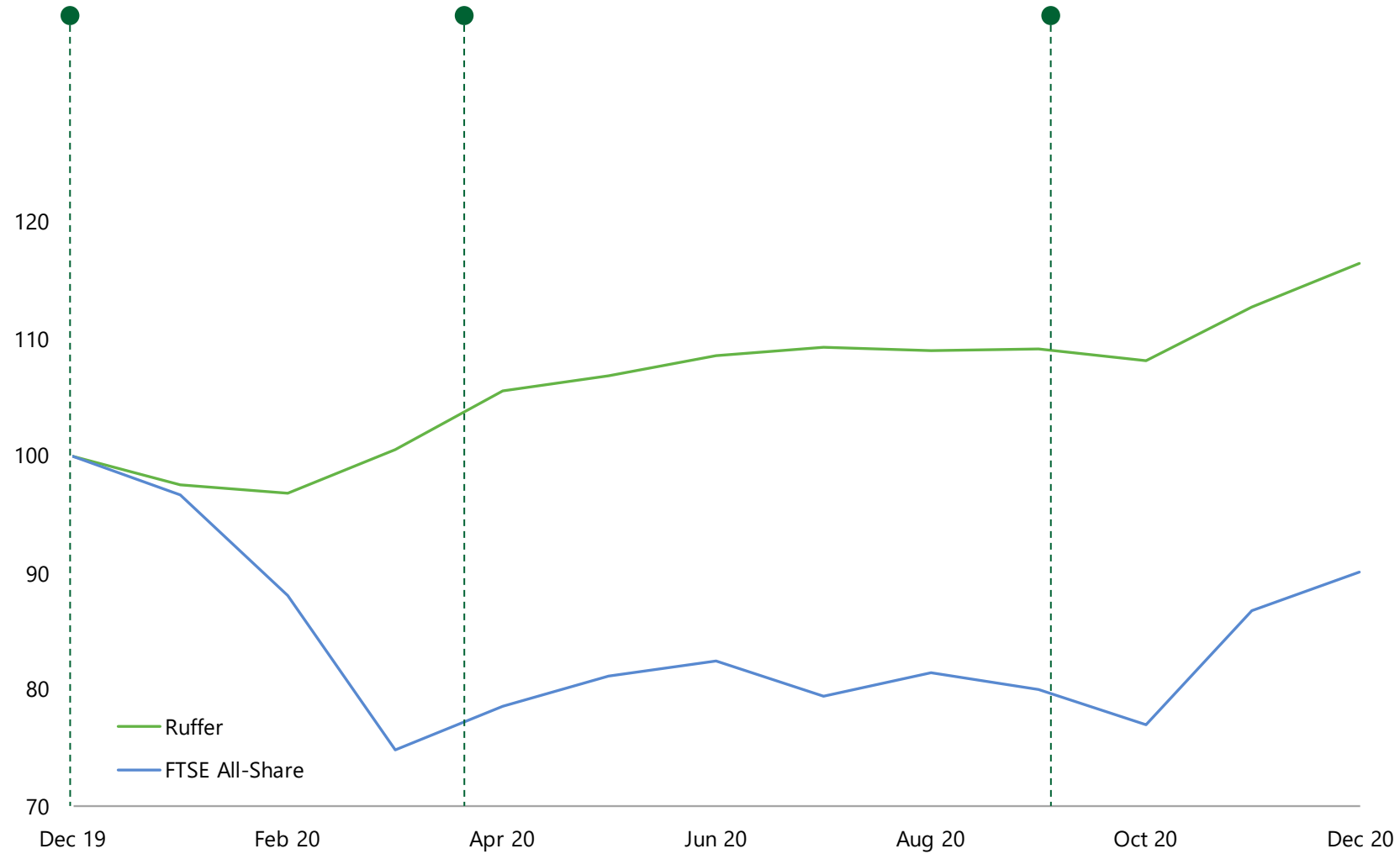


Low equity weighting reflecting high index-level valuations

Credit default swaps, VIX options and equity puts

Sterling exposure high

Performance during the covid-19 crisis



Source: Ruffer, FTSE International. Cumulative performance from Dec 19 data to 31 December 2020, in pounds sterling. Performance data is included in the appendix. All figures include reinvested income. Ruffer's representative.. Ruffer performance is shown after deduction of all fees and management charges. Calendar quarter data has been used up to the latest quarter end and monthly data thereafter.

Lessons from previous inflection points

Avoidance of overvalued areas

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Offsetting qualities of assets

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Opportunities in aftermath

Rules of the game



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Balance attack and defence



Position pieces to profit



Adapt to phase of the game



Don't depend on luck



Queen's gambit – not just advancement

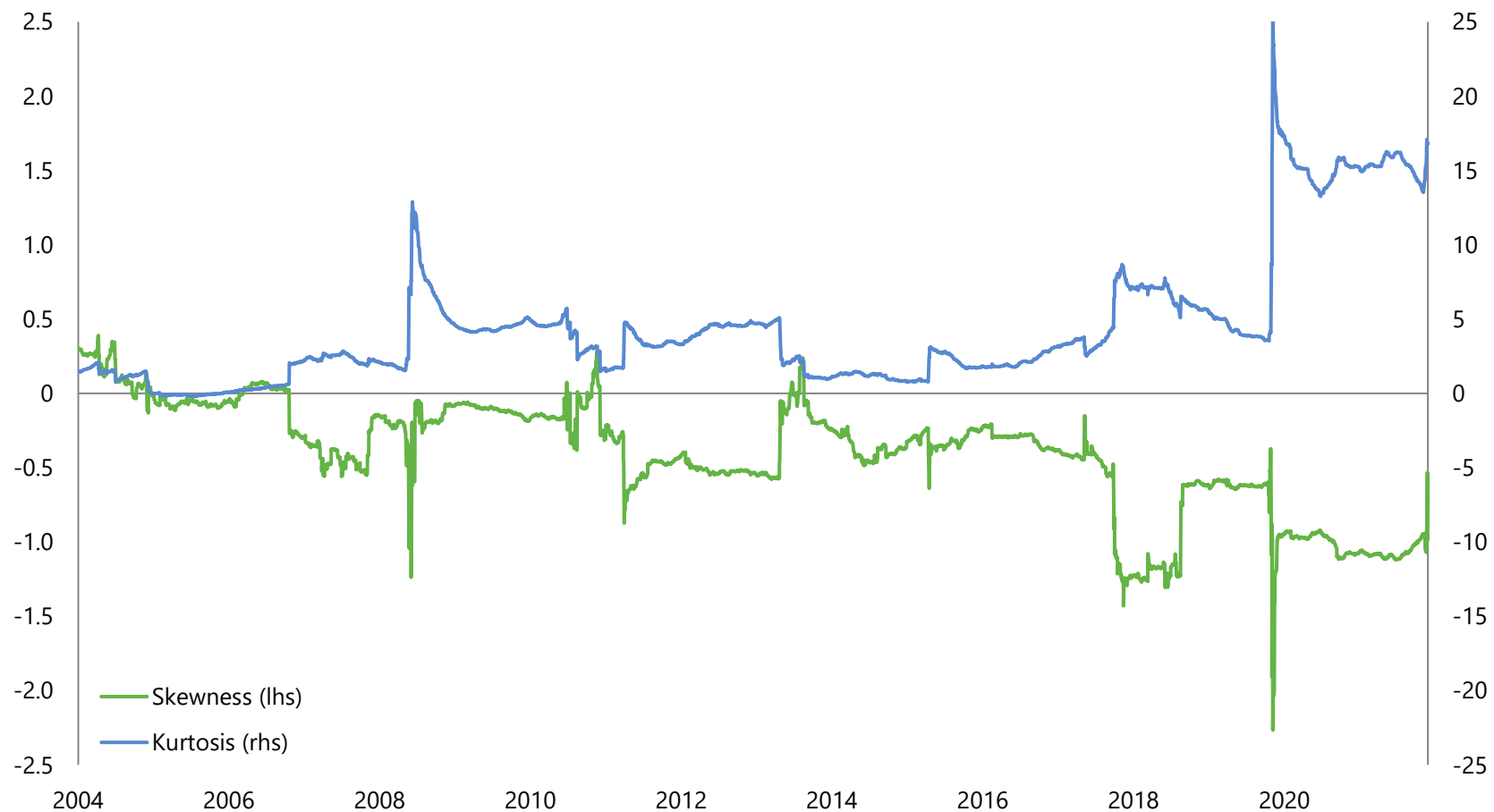


Each piece has a unique role

Difficulty of
market
conditions

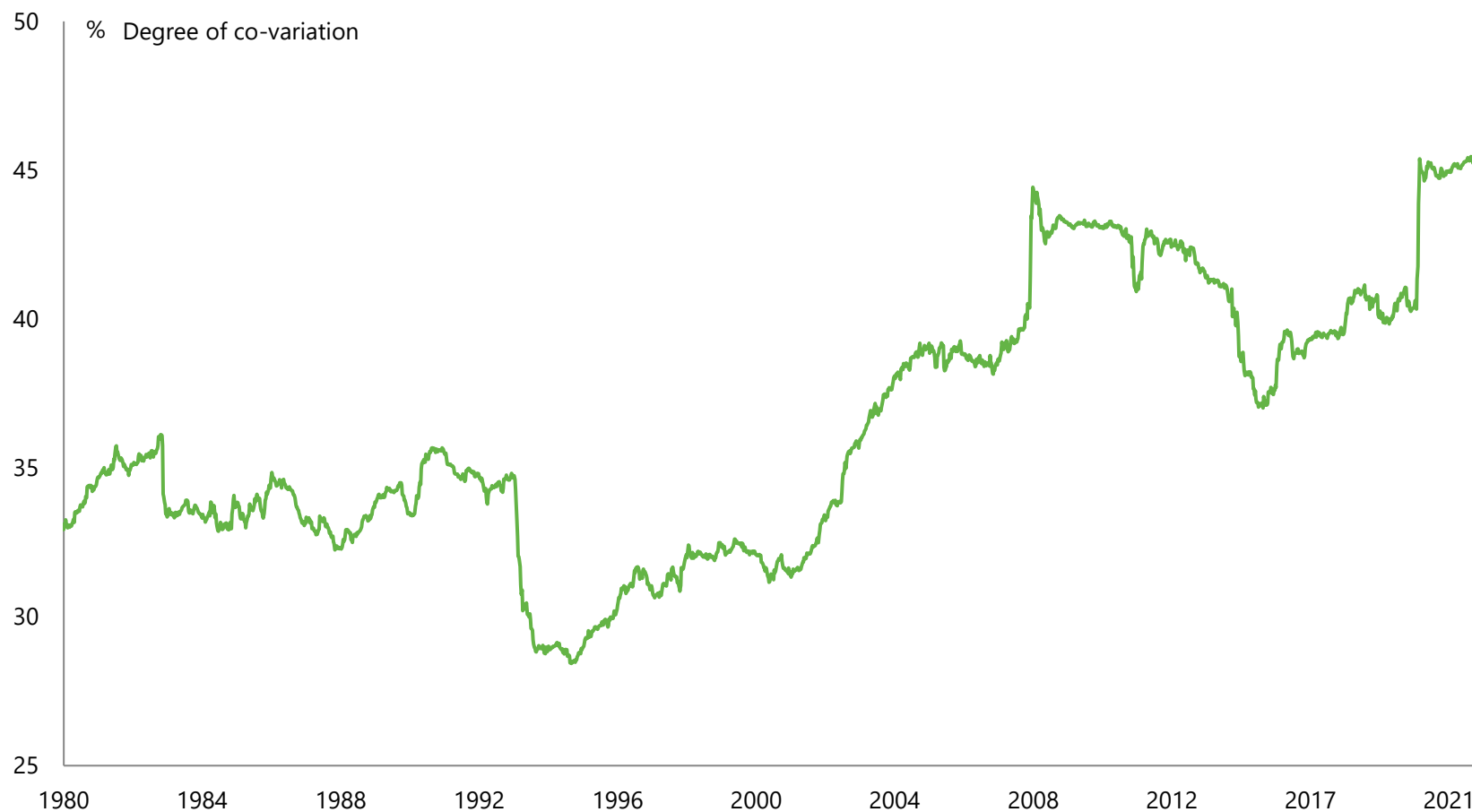
Heightened risk under the surface

MEASURES OF TAIL EVENTS IN S&P 500



A world without offsets

DIFFERENT ASSET CLASSES ARE INCREASINGLY DANCING TO THE SAME TUNE

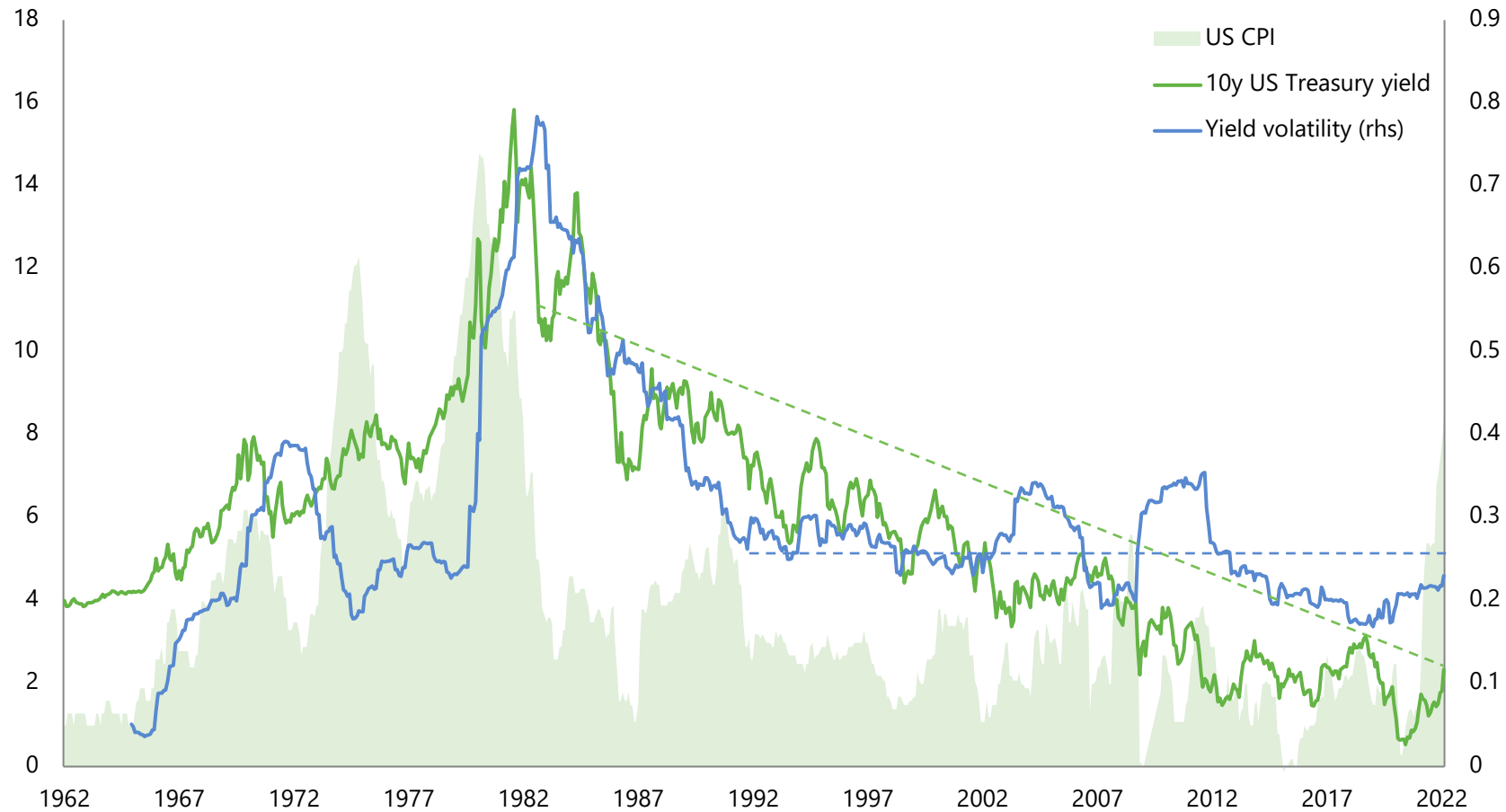


Source: Ruffer, Bloomberg. Proportion of variation explained by first two principal components. 45 years of weekly data across US, UK, Germany, Japan and EM equities, dollar index, GBP, EUR, JPY, AUD, oil, gold, commodities index, US and UK 10y yields. Data to April 2022

Why are sovereign bonds a safe haven?

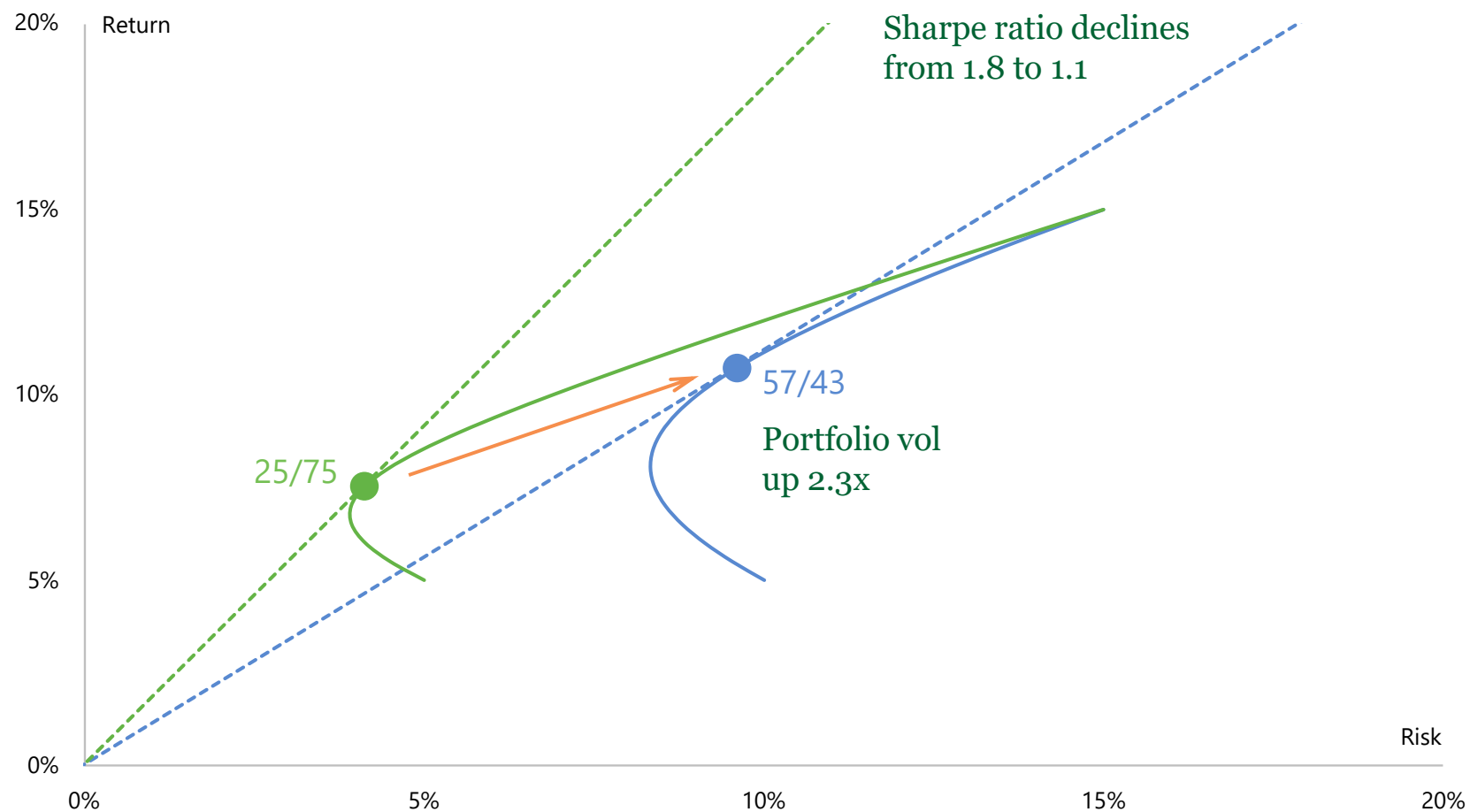


What could threaten that status?



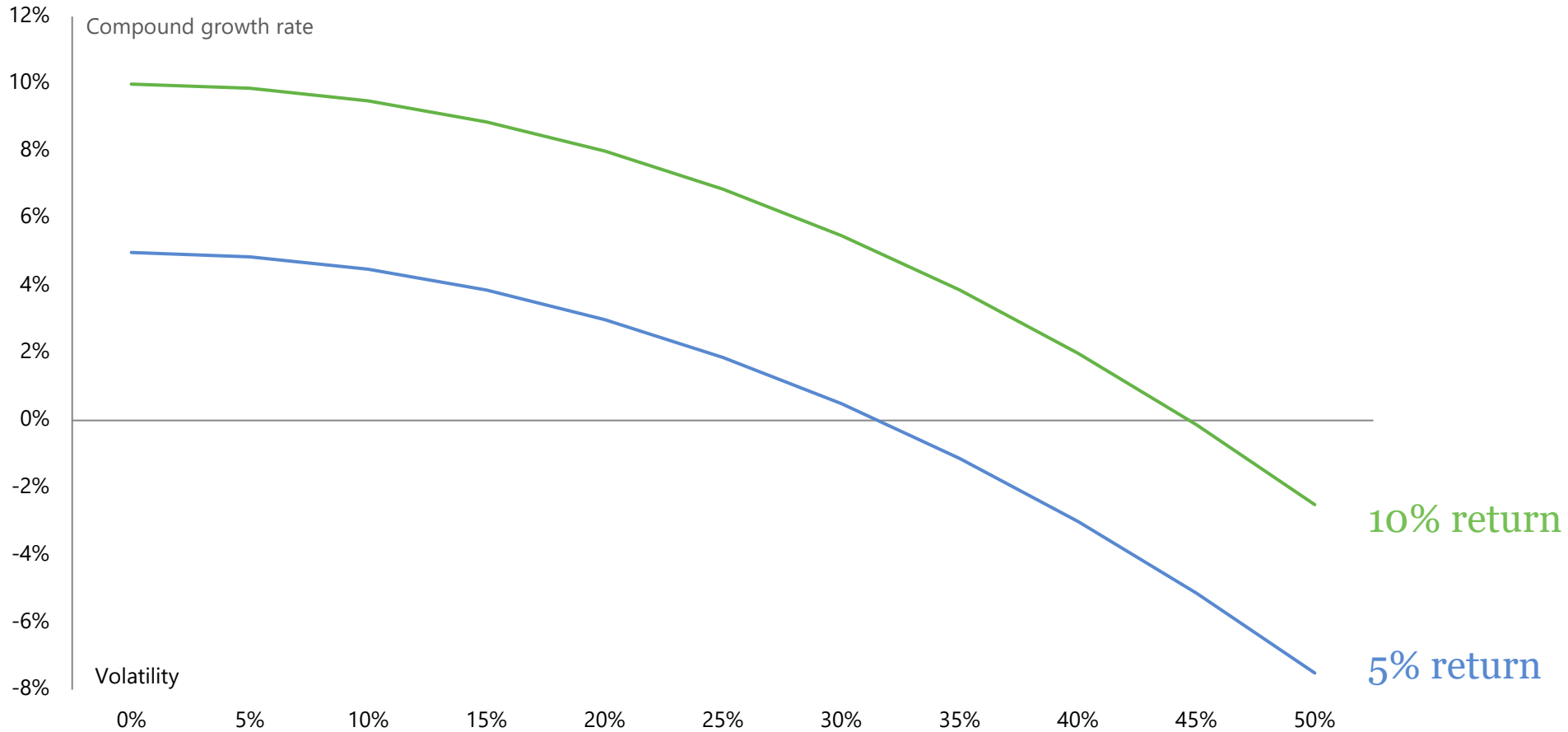
Traditional frameworks are creaking

A RISE IN BOND VOLATILITY LEADS TO WORSE OUTCOMES



Volatility is not your friend

COMPOUND GROWTH RATE AT GIVEN LEVELS OF VOLATILITY



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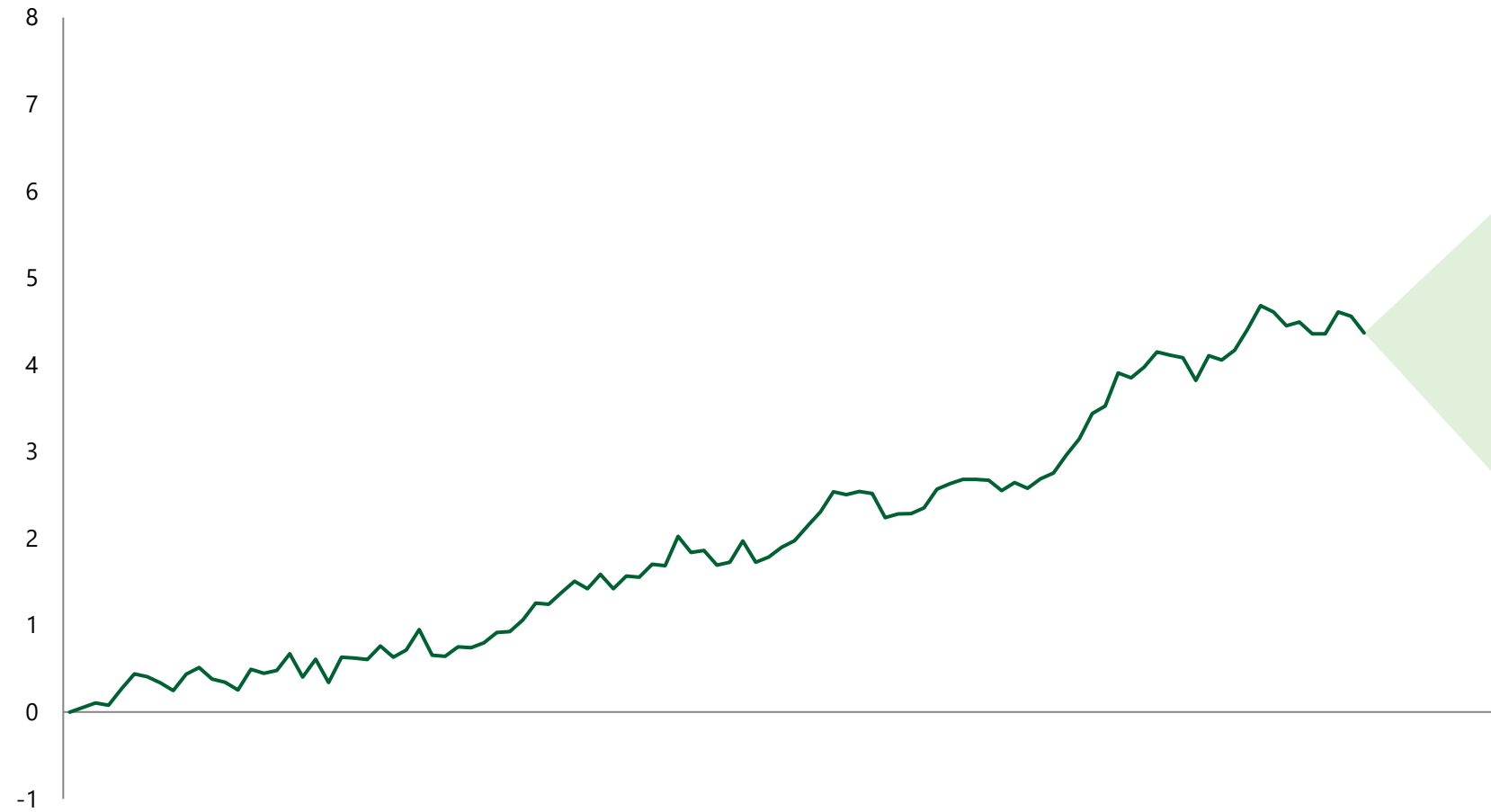


Each piece has a unique role

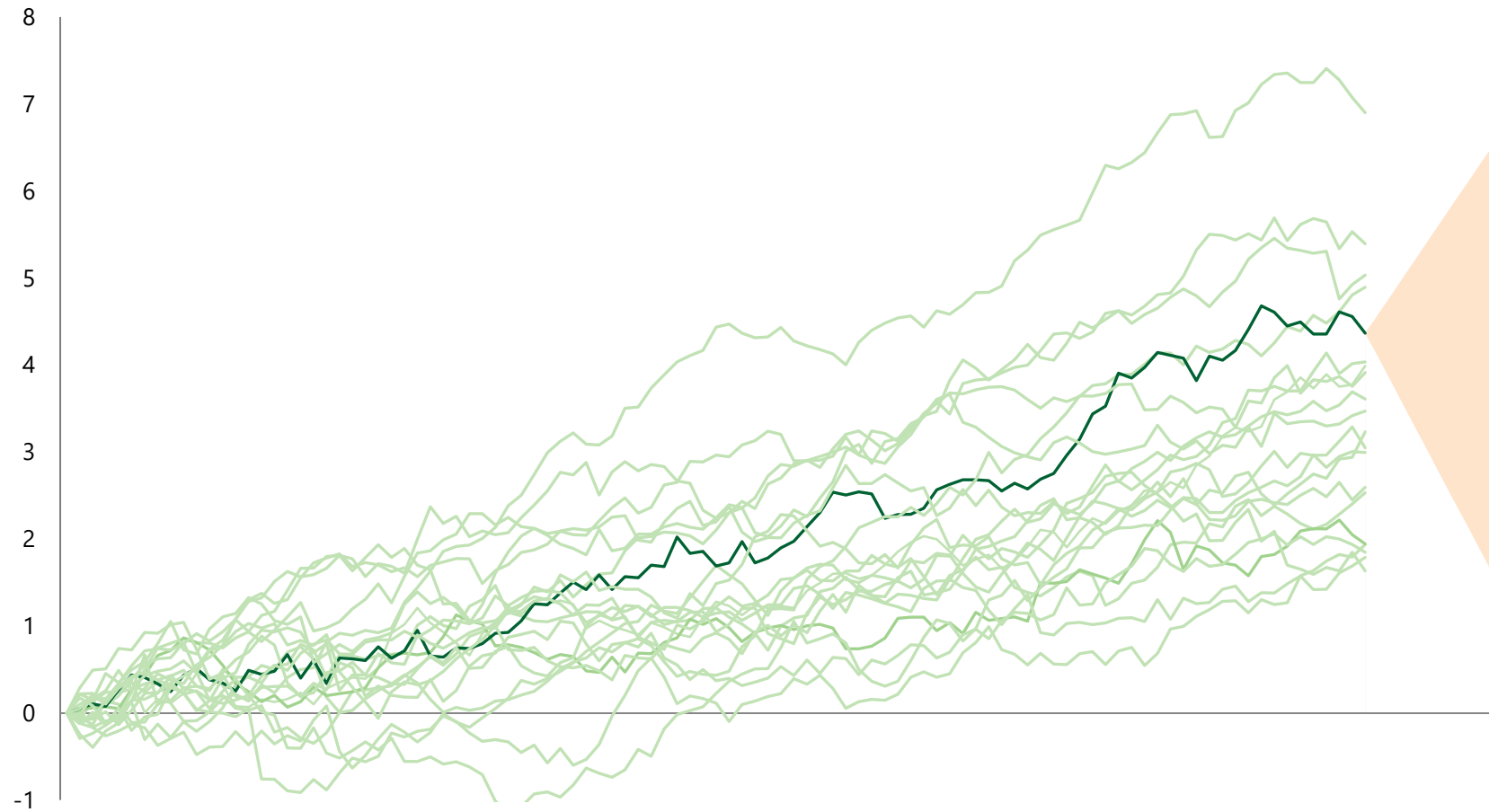
Full
appreciation
of risk



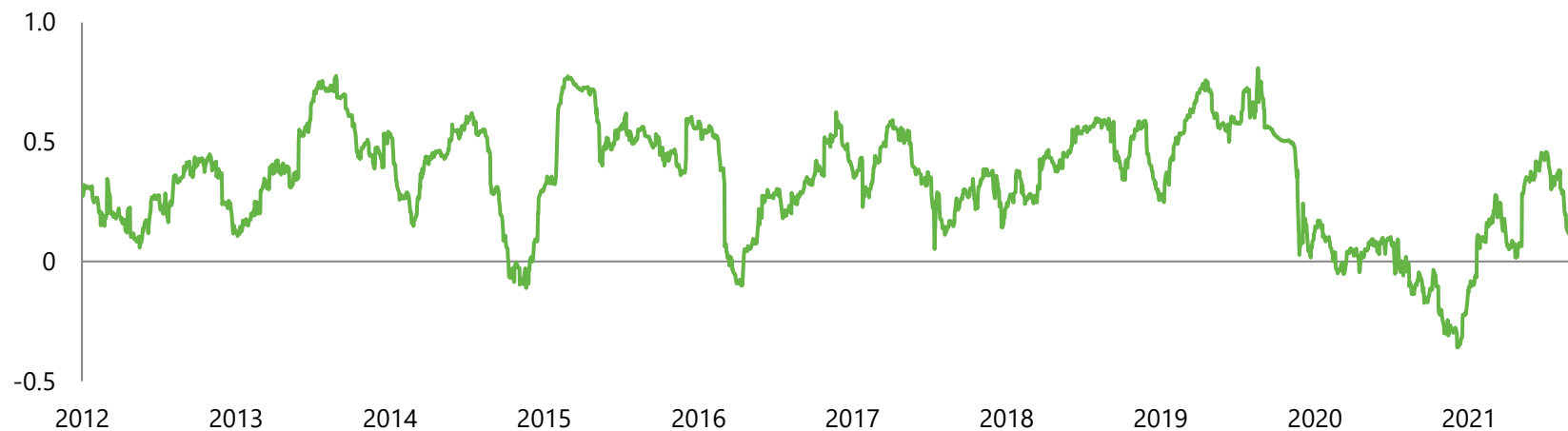
Ensemble versus time average



Ensemble versus time average

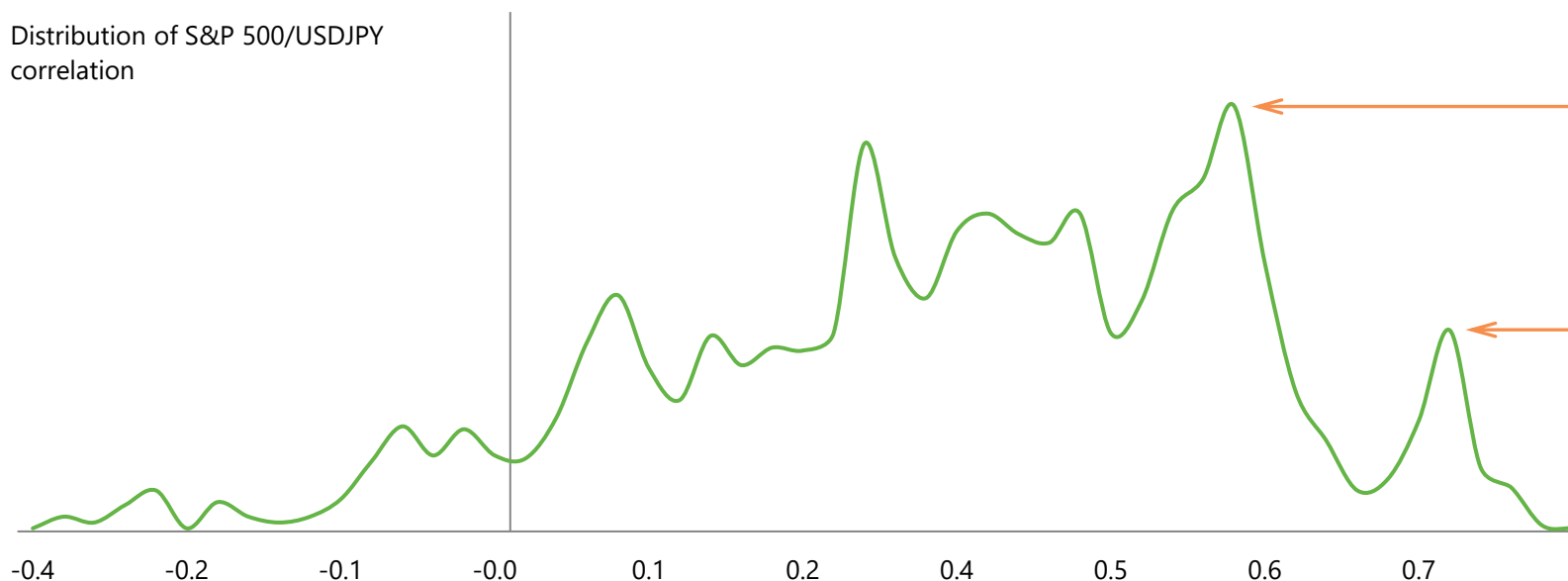


Conditional relationships are key



Correlation itself has a distribution
(S&P 500 and USDJPY)

Distribution of S&P 500/USDJPY correlation



Some of the best (and cheapest!) hedges may only work conditionally

Quantitative versus qualitative



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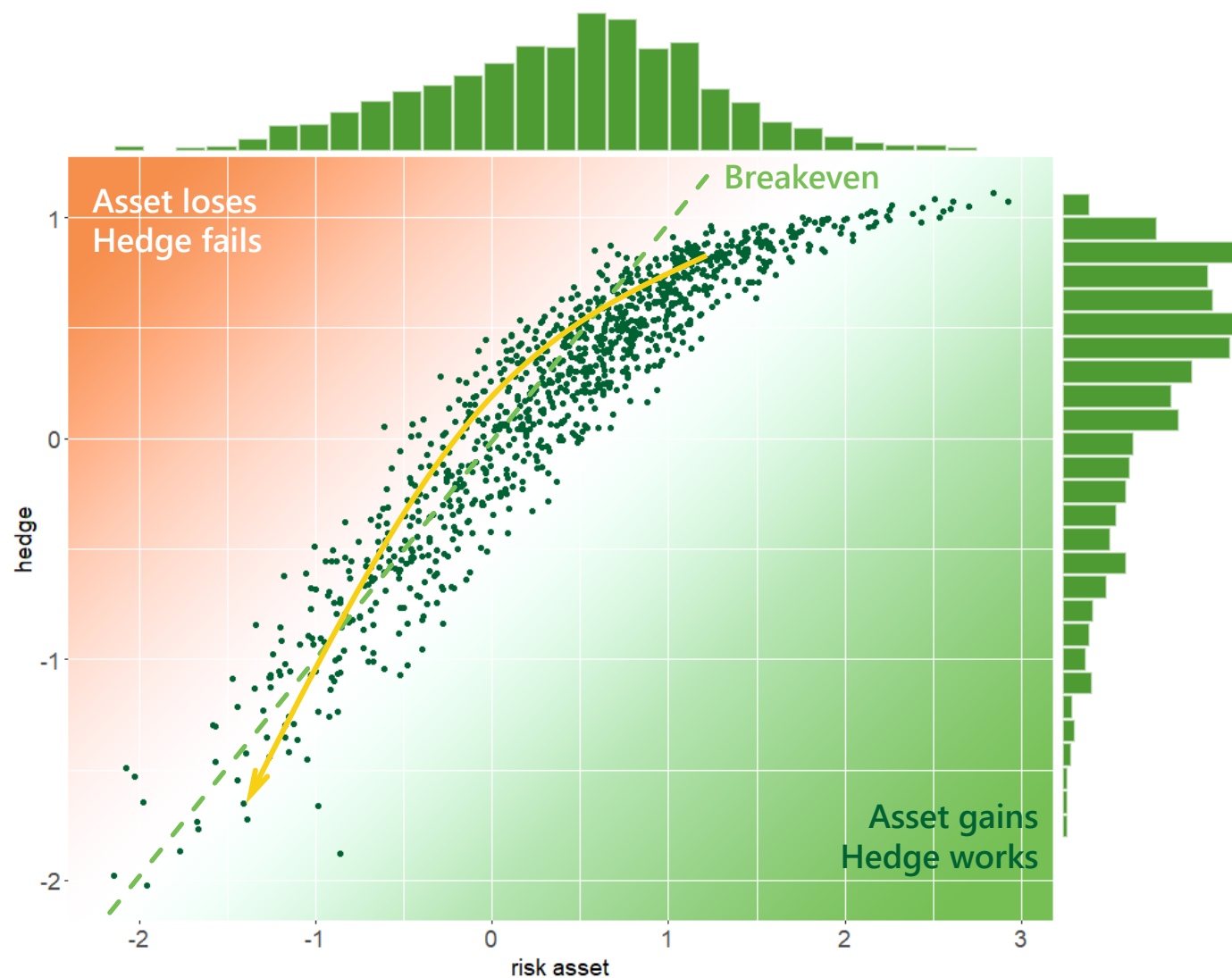
Queen's gambit – not just advancement



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Combining
convex
payoffs

Combining convex payoffs



Protection framework

VALUE

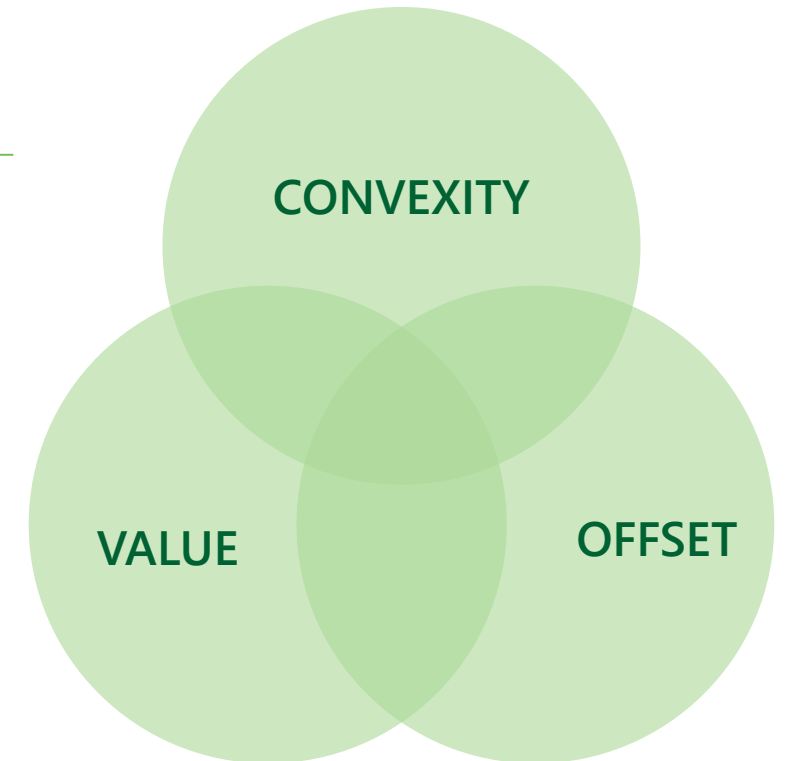
Look for protection we believe to be cheap, especially on a prospective basis

OFFSET

Target protection to match unacceptable risks in the portfolio

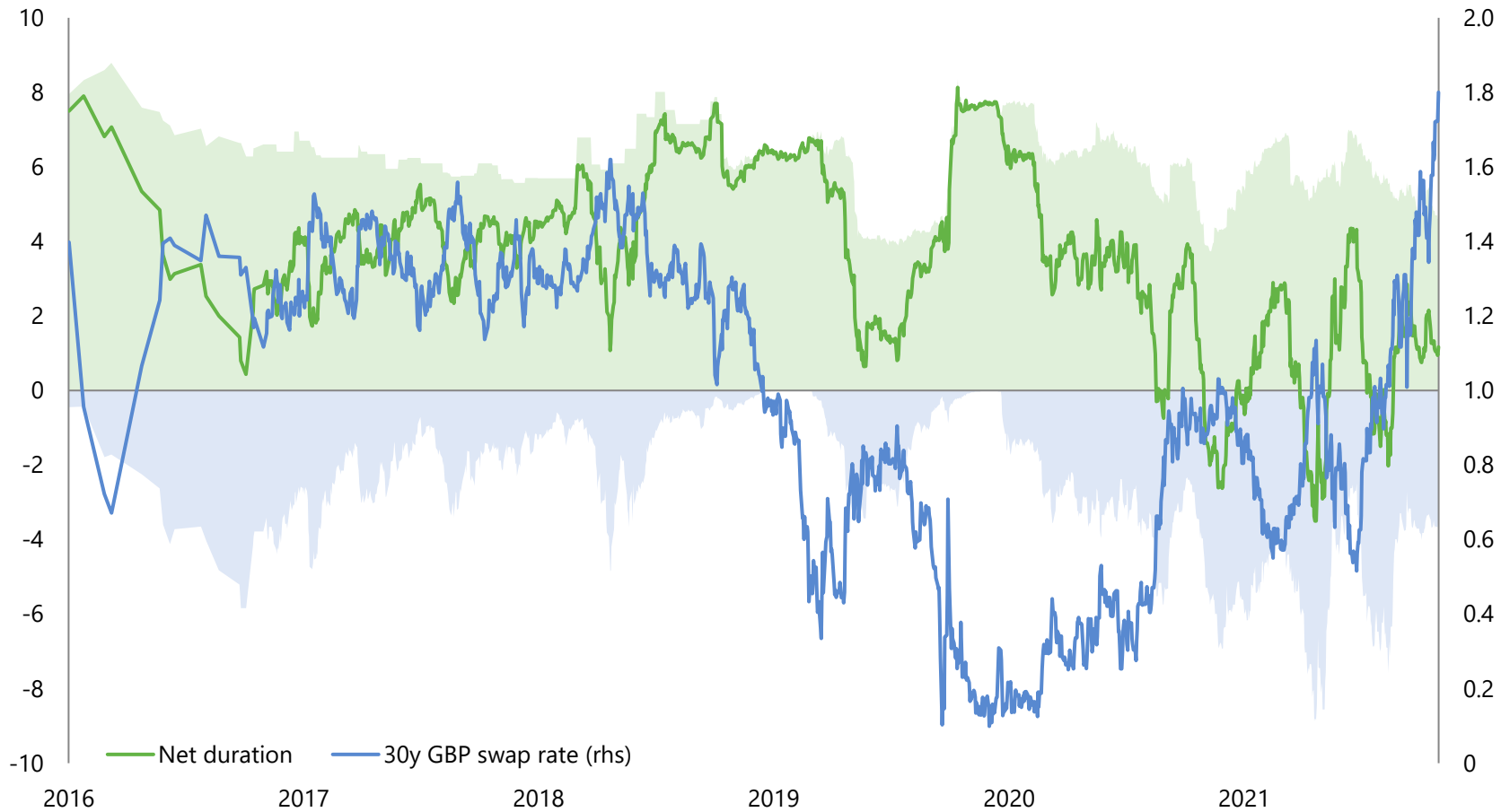
CONVEXITY

Identify protection which can provide a meaningful payoff in adverse conditions



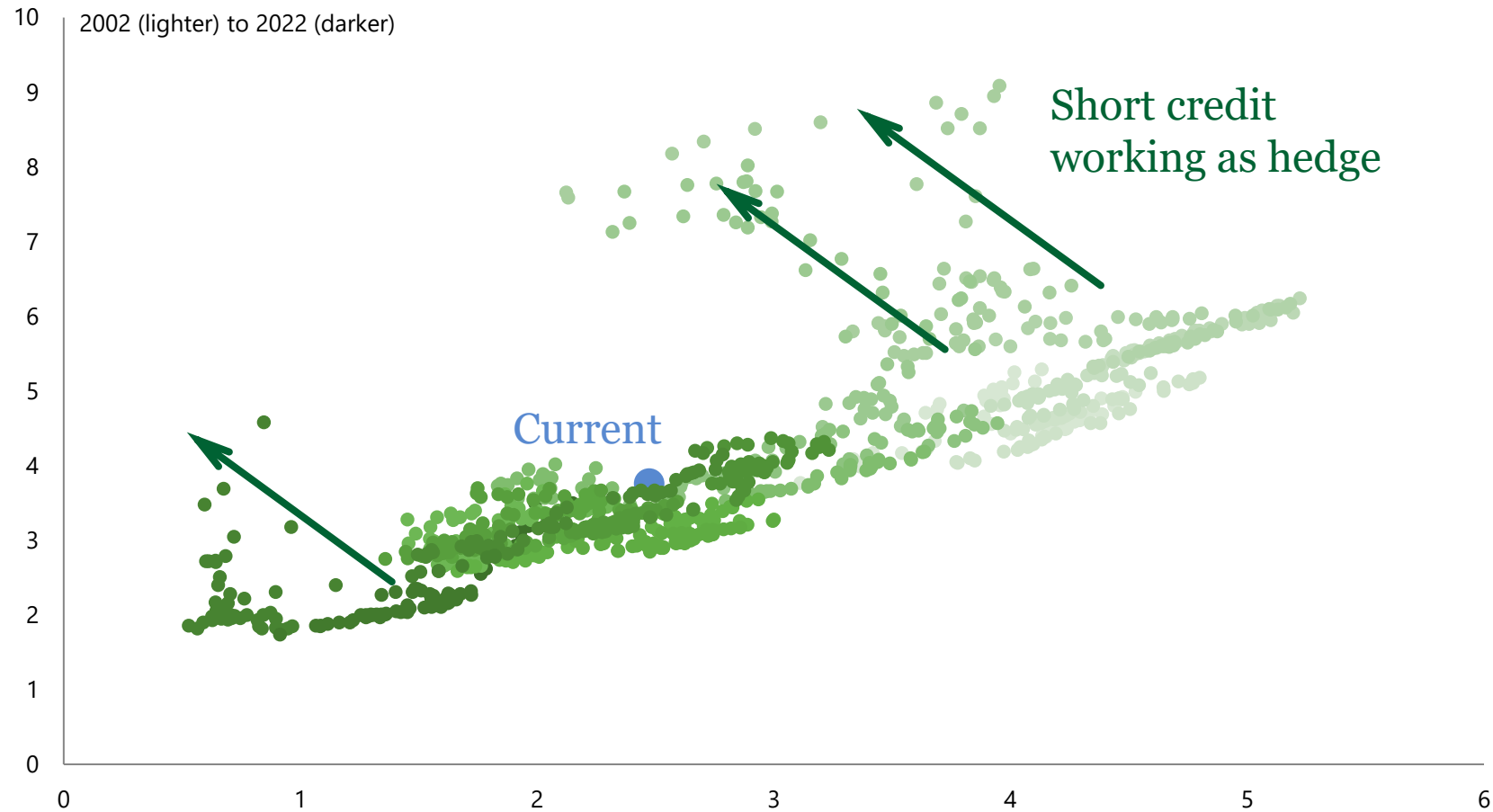
Duration management

INTEREST RATE EXPOSURE THROUGH TIME



Risk mitigation

US INVESTMENT GRADE CREDIT VERSUS US TEN YEAR TREASURIES





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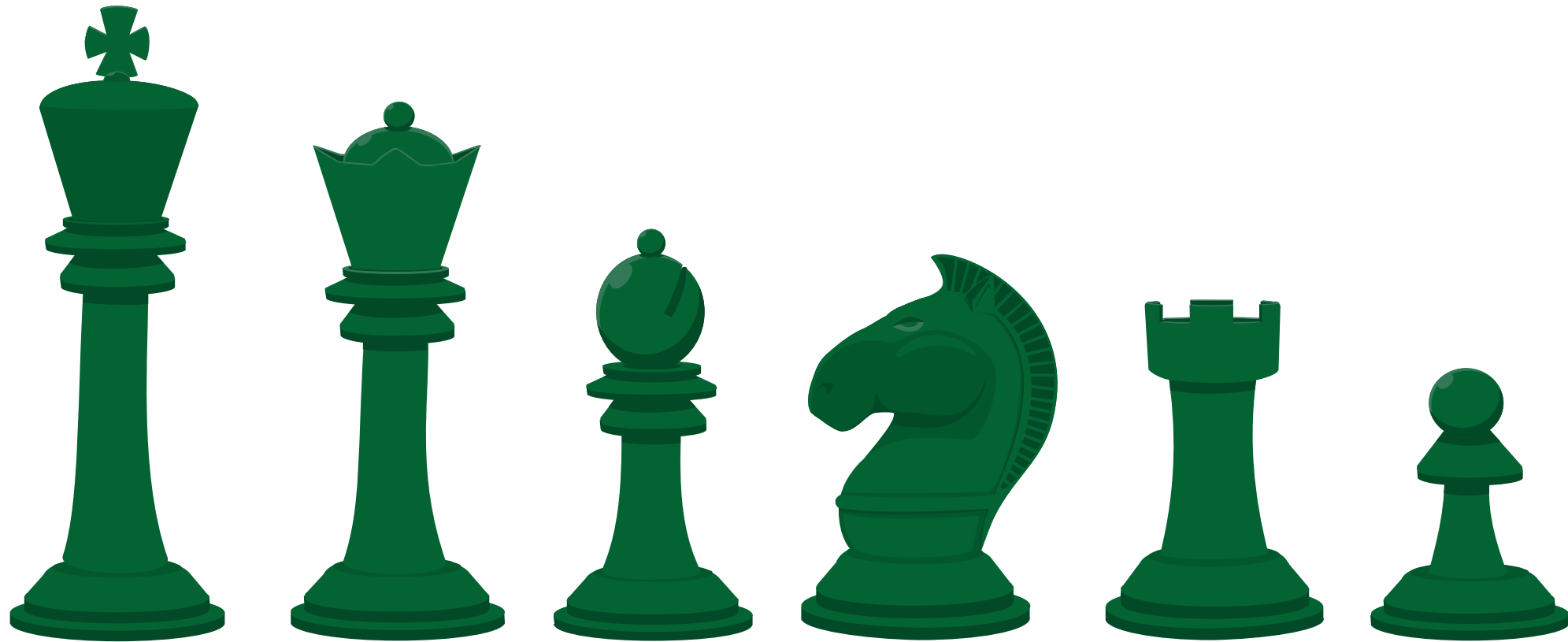
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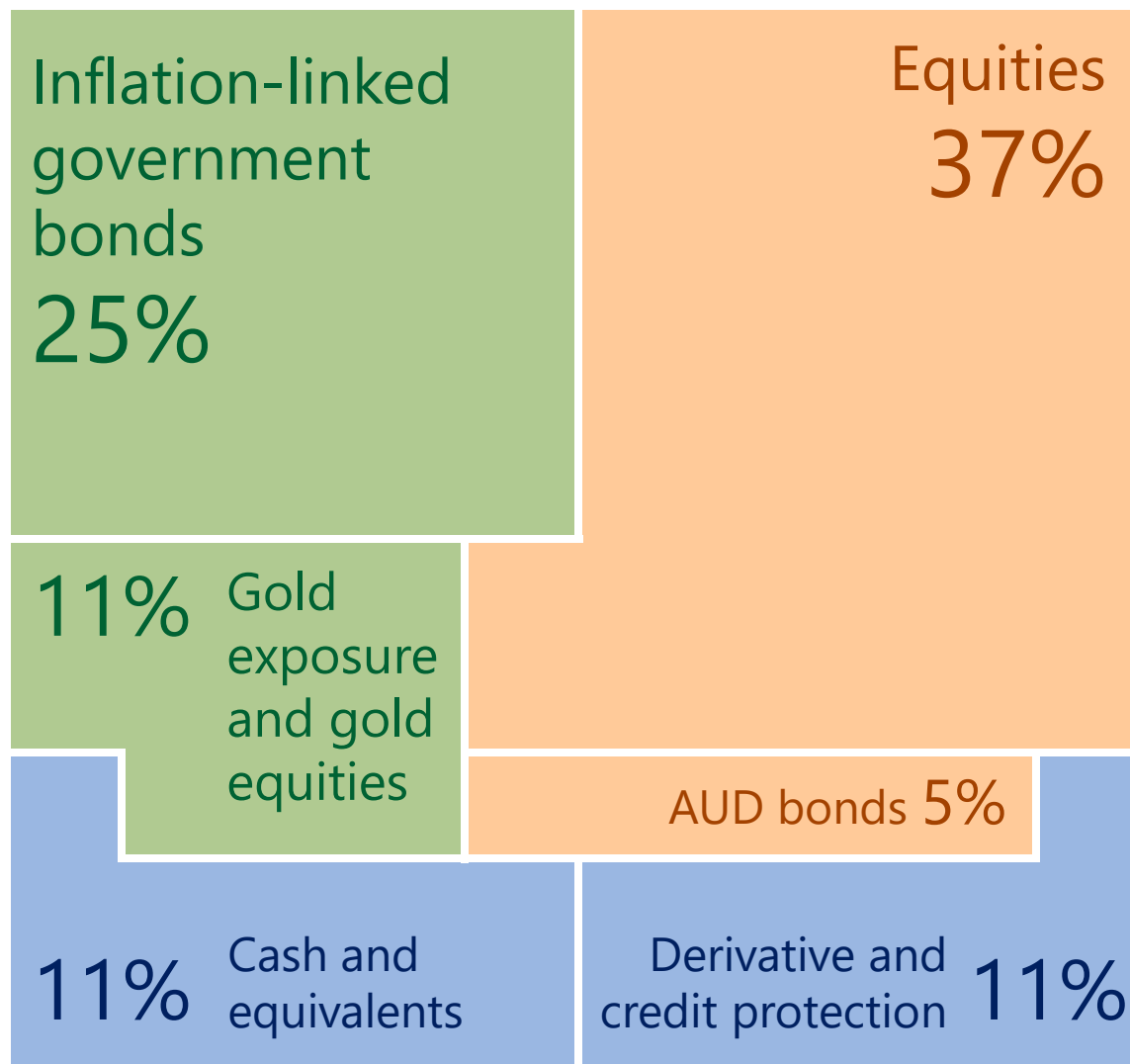
Each piece has a unique role

The need for
unconventional
instruments

Each piece has a role



Current portfolio structure



Low equity weighting reflecting caution

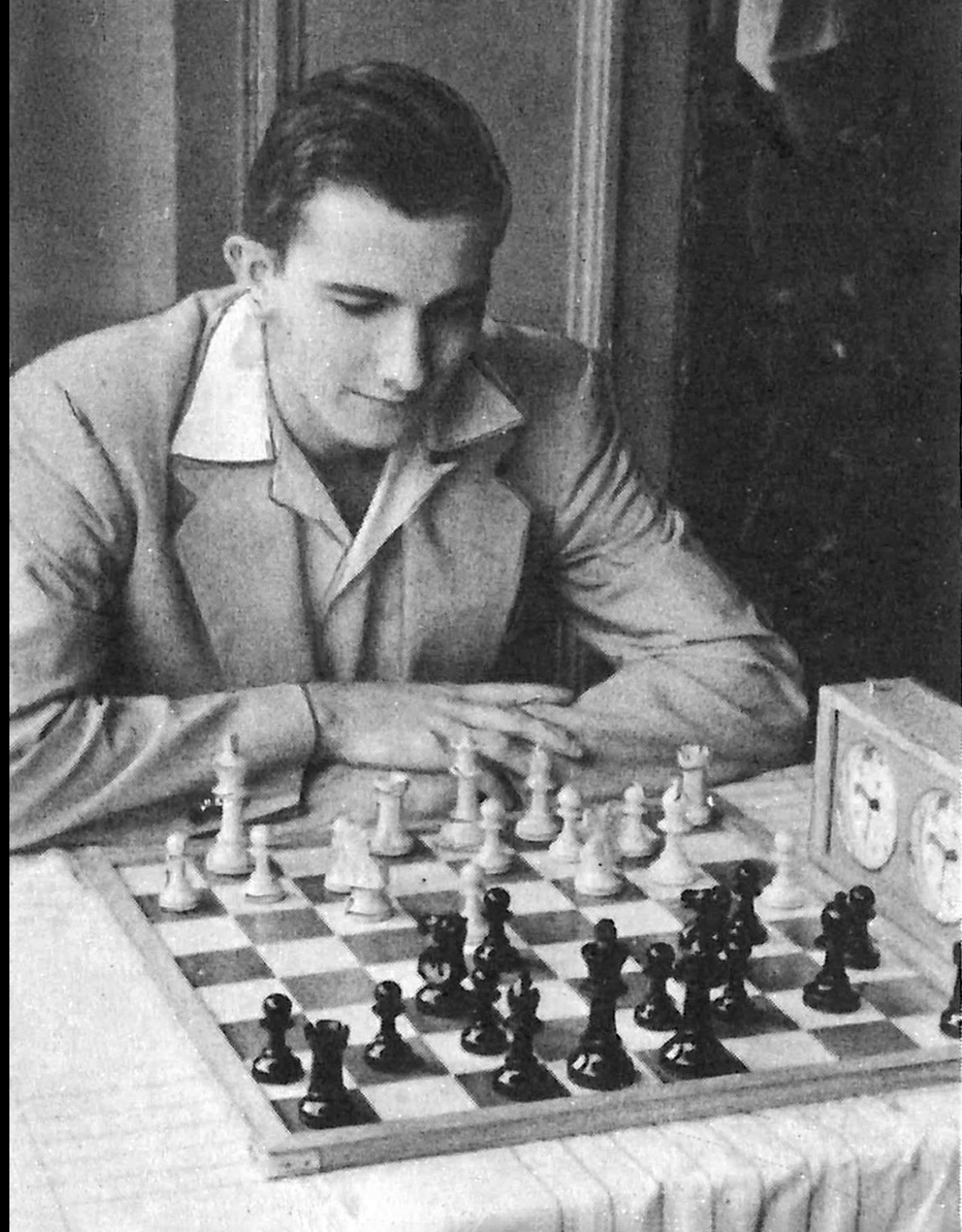
Derivatives – equity and rate protection

Credit and volatility strategies

Dollar, yen, gold defensive position

“ Once you are in
the endgame,
the moment of
truth has
arrived.”

Edmar Mednis
Chess Grandmaster





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Regulatory performance data

PERCENTAGE GROWTH

To 31 Mar %	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22
Ruffer	11.0	29.7	7.6	2.6	20.4	5.2	-0.8	17.5	12.2	20.5	1.6	4.8	10.3	24.2	6.8	5.3	10.7	0.9	10.0	-5.5	12.0	-1.9	-1.6	5.6	23.3	5.6
LF Ruffer Total Return						9.6	6.9	20.8	10.0	18.2	-3.2	8.5	9.8	23.2	7.5	3.1	10.4	-1.6	11.8	-4.7	12.8	-1.7	-1.1	4.0	20.3	6.1
FTSE All-Share	18.7	36.5	6.8	9.9	-10.8	-3.2	-29.8	31.0	15.6	28.0	11.1	-7.7	-29.3	52.3	8.7	1.4	16.8	8.8	6.6	-3.9	22.0	1.2	6.4	-18.5	26.7	13.0
FTSE All-World	1.3	28.7	15.8	24.8	-14.4	-3.1	-31.0	25.9	8.4	31.6	3.2	-1.4	-20.4	48.4	8.4	-0.2	17.1	6.8	19.2	-0.5	33.1	2.9	10.7	-6.2	39.6	12.8

Source: Ruffer, FTSE International. 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 reliable indicator of 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. Calendar quarter data has been used up to the latest quarter end. Ruffer LLP is authorised and regulated by the Financial Conduct Authority. This document, and any statements accompanying it, are for information only and are not intended to be legally binding. Unless otherwise agreed in writing, our investment management agreement, in the form entered into, constitutes the entire agreement between Ruffer and its clients, and supersedes all previous assurances, warranties and representations, whether written or oral, relating to the services which Ruffer provides. All references to Ruffer performance refer to Ruffer's representative portfolio which is an unconstrained segregated portfolio following Ruffer's investment approach.

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