LF Ruffer Diversified Return Fund

Positive absolute returns with low volatility

C class December 2022 **Issue 16**

During December the fund was up 0.7% compared to the return on the UK Bank Rate of 0.3%.

A new year, a new beginning. Many investors may find themselves limping into 2023 with a growing sense of crisis fatigue from the last few years. Contrastingly, we find ourselves rather energised as events are broadly sweeping in the direction we have spent years preparing for.

At the moment, a benign market outcome in 2023 depends on an almost impossible trinity: a short and shallow recession, a rapid decline in inflation and an aggressive Fed pivot. Not impossible, but would you bet on it? Why would inflationary pressures, so broad-based as we enter 2023, suddenly dissipate? And even if they do, won't that be because a recession has driven unemployment up? How quickly can a Fed, so concerned about letting the inflation genie out of the bottle, realistically reverse course? If the real economy is deteriorating fast enough that inflation will drop like a stone, then why wouldn't investors also price in significant downside to corporate earnings? We don't have reasonable answers to these questions, but we do have a plan.

In the near term, we are somewhat positioned for a disinflationary lurch on the inflationary journey, bond yields coming down and a bumpy recessionary landing. We are waiting for the opportune moment to pivot towards a portfolio positioned for higher nominal growth alongside inflation and financial repression – but it's not yet. So there is a degree of what appears to be cognitive dissonance in our portfolio construction, because the portfolio we believe you want for the coming six to nine months is almost entirely different from the strategic portfolio you might want to navigate the coming decade. The risk is we are trying too hard; the danger is, by not trying to navigate through choppy markets, investors could get hurt.

We go into the year prepared for an uncomfortable ride. The first half of the year could instead be about an unusually durable US economy, sticky inflation, and a higher peak in interest rates. Alternatively, the market may be saved from further hawkishness but only because the recession happens earlier, and at greater speed. Neither has a happy ending for investors.

The setup points to significant volatility as market participants grapple with narrative swings and shifting financial conditions. We recognise we will need to trade actively to preserve capital in these choppy waters and are ready to change our views as circumstances change. For now, equities remain at their lowest level in our history – 12% gross and around zero net of option protection – though in December we added a 3% position to oil futures via an ETC and have rebuilt gold exposure towards 5%.

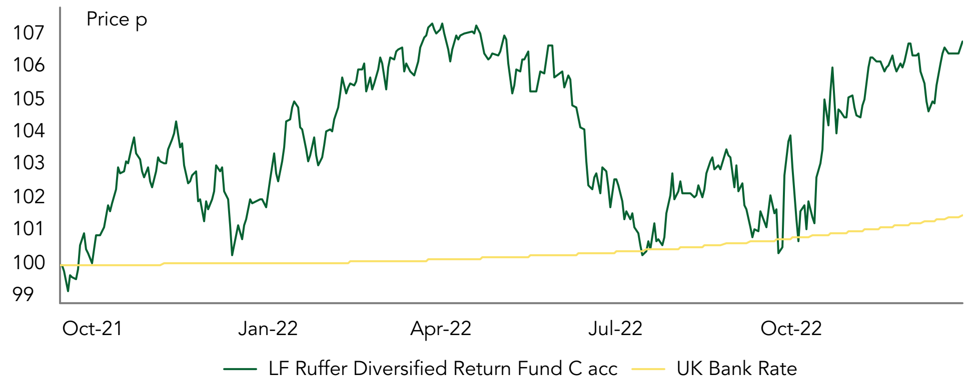
These periods are processes, not events. Asset markets are down, investors are impatient to buy the dip and return to money-making. These things take time: there were six months between Northern Rock and Bear Stearns and a further six months before Lehman Brothers. Patience and preparation are our watchwords and, in the meantime, for the first time in 14 years, you are starting to be paid a decent return to wait.

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



C accumulation shares	Performance %
December 2022	0.7
Year to date	5.0
1 year	5.0

Share price as at 30 December 2022	**p**
C accumulation	**106.79**
C income	**105.90**

12 month performance to December %	2022
LF Ruffer Diversified Return Fund C acc	5.0
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 30 Dec 2022

Asset allocation

Currency allocation

Asset allocation	%
Short-dated bonds	30.7
Index-linked gilts	20.2
Non-UK index-linked	12.6
Cash	9.7
Long-dated index-linked gilts	5.7
Gold exposure and gold equities	3.6
Protection strategies and options	1.5
UK equities	4.7
North America equities	4.6
Oil exposure	3.0
Europe equities	2.1
Japan equities	1.3
Other equities	0.3

Currency allocation	%
Sterling	63.4
US dollar	14.1
Yen	11.9
Australian dollar	5.1
Euro	3.0
Other	2.5

10 largest equity holdings

Stock	% of fund
BP	1.8
Shell	0.7
Haleon	0.6
Agnico Eagle Mines	0.5
Cigna	0.5
Unilever	0.4
Activision Blizzard	0.4
Glencore	0.4
Fujitsu	0.4
NEC	0.4

5 largest bond holdings

Stock	% of fund
UK Treasury index-linked 0.125% 2024	9.8
UK Treasury index-linked 2.5% 2024	7.3
US Treasury FRN 31 Jan 2024	5.6
US Treasury FRN 31 Oct 2024	5.5
US Treasury FRN 31 Oct 2023	5.5

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

Fund size £1,876.3m

Fund information

	%
Ongoing Charges Figure (capped)	1.13
Annual management charge	1.1
Yield (historic)	0.84
Minimum investment	£1,000
Ex dividend dates	15 Mar, 15 Sep
Pay dates	15 May, 15 Nov
Dealing frequency	Daily
Valuation point	12:00

	Accumulation	Income
ISIN	GB00BMWLQT53	GB00BMWLQS47
SEDOL	BMWLQT5	BMWLQS4

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

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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

Graduated from Warwick Business School with a degree in international business with Spanish, and joined Ruffer's UK private client team in 2017. She became a member of the CISI in 2020, following completion of the Chartered Wealth Manager qualification. She is an investment specialist in Ruffer's UK Wholesale team, working closely with multi-family offices, wealth managers, financial planners and their clients.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 30 November 2022, assets managed by the Ruffer Group exceeded £26.1bn.