LF Ruffer Diversified Return Fund

Positive absolute returns with low volatility

I class September 2022 **Issue 13**

During September, the fund price rose by 0.4%. This compared with a return on the UK Bank Rate of 0.2%.

A seamless succession from the late Queen Elizabeth II to King Charles III stood in stark contrast to growing instability in financial markets as the long reign of low inflation and easy money ends. Stocks and bonds both fell once again as the toxic cocktail of persistent inflation, central bank hawkishness, rising recession risk and political uncertainty left investors with few hiding places.

August's 8.3% US inflation print proved hotter than expected, dashing remaining hopes of a Fed 'pivot' away from aggressive monetary tightening. Stock markets suffered their biggest one-day drop since the depths of COVID and all the time the liquidity noose continues to tighten. Fed hikes took US rates to 3.25% and heading higher, with markets now predicting over 4% by the year end. Quantitative tightening (QT) – where the Fed drains liquidity by running down its holdings of government bonds – doubled to $95bn per month. Lower liquidity means less money is available to support asset prices. Consequently, the fund retains a record low equity weight of c.15%, which detracted 0.9% from performance. Our downside derivative protections were the biggest positive, adding 3.1%. We have taken some profits here.

Against this febrile backdrop the new British government popped its head above the parapet with a 'mini-budget' requiring extra borrowing at a time of rapidly rising rates, high inflation and a large current account deficit. A market storm ensued: sterling touched an all-time low whilst UK bond yields surged, triggering a doom-loop of disorderly selling by Liability Driven Investing (LDI) pension strategies scrambling for cash to meet derivative margin calls. Real (inflation-adjusted) yields on the longest-dated UK index-linked bonds (held in the fund) rocketed to nearly 2%. This gave us the opportunity to add to these key assets at extraordinarily distressed prices, before the Bank of England was forced to step in to restore order. At one point down over 85% year to date, the 2073 index-linked gilts rallied nearly 250% from their trough to the month end, adding significantly to performance. They remain an option on long-term inflation expectations un-anchoring. We also added new positions in long-dated US inflation-protected TIPS and conventional bonds totalling c.7%. The combination of higher yields and growing recession risk now makes these bonds more attractive than for many years. We also increased our US dollar weighting after the pound recovered from its 'mini-budget' meltdown. For now, the dollar offers defensive characteristics in a world of deepening risks.

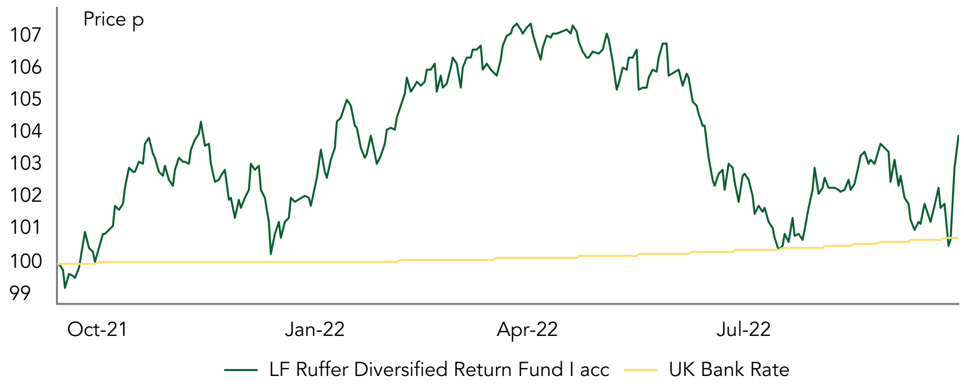
Britain's gilt market seizure is a warning from the future. As the liquidity tide continues to recede, other crises will emerge. Housing markets are one obvious area where rapid rate rises are already causing trouble. As the Bank of England has just discovered, central banks may have to choose between controlling inflation or protecting financial stability. Ending the reign of easy money was never going to see a smooth succession. The fund remains defensively positioned with the liquidity to take opportunities as they arise.

We are holding a meeting for shareholders on Thursday 24 November at our office in London. If you would like to attend please email ruffer@ruffer.co.uk.

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 %
September 2022	0.4
Year to date	2.1
1 year	3.6

Share price as at 30 September 2022	p
I accumulation	**103.94**
I income	**102.85**

12 month performance to September %	2022
LF Ruffer Diversified Return Fund I acc	3.5
UK Bank Rate	0.8

Source: Ruffer LLP

LF Ruffer Diversified Return Fund as at 30 Sep 2022

Asset allocation

Currency allocation

Asset allocation	%
Index-linked gilts	29.6
Short-dated bonds	16.7
Non-UK index-linked	13.5
Long-dated index-linked gilts	7.9
Cash	6.5
Long-dated bonds	5.8
Protection strategies and options	3.6
Gold exposure and gold equities	1.4
North America equities	5.5
UK equities	4.7
Japan equities	2.6
Europe equities	2.0
Other equities	0.1

Currency allocation	%
Sterling	63.1
US dollar	19.9
Yen	9.1
Australian dollar	5.3
Euro	2.2
Other	0.4

10 largest equity holdings

Stock	% of fund
BP	1.8
Mitsubishi UFJ Financial Group	0.8
Shell	0.7
Cigna	0.7
Berkshire Hathaway	0.6
Activision Blizzard	0.5
Haleon	0.5
Chesapeake Energy	0.5
Unilever	0.5
Charles Schwab	0.5

5 largest bond holdings

Stock	% of fund
UK Treasury index-linked 0.125% 2024	14.3
UK Treasury index-linked 2.5% 2024	9.3
US Treasury 0.625% TIPS 2023	4.2
US Treasury 0.375% TIPS 2023	4.1
UK Treasury index-linked 0.125% 2026	3.1

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

Fund size £1,562.1m

Fund information

		%
Ongoing Charges Figure (capped)		0.93
Annual management charge		0.90
Yield (historic)		1.02
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
Depositary		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

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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.

Jasmine Yeo

FUND SPECIALIST

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 31 August 2022, assets managed by the Ruffer Group exceeded £26.3bn.