

# Ruffer Investment Company Limited

An alternative to alternative asset management



January 2018 Issue 152

During January, the net asset value of the Company fell by 0.3%. This compares with a fall of 1.9% in the FTSE All-Share Index.

There is currently a tension at the heart of our analysis and this translates into the portfolio: on the one hand we are positive on the global economy, on the other, we are nervous about valuations and the technical fragilities we observe in financial markets.

The momentum of synchronous global growth across all economic zones in 2017 has carried over into 2018. Advanced economies are growing at rates last seen in the early 2000s. Several factors give us confidence this could be sustained for a while longer. Despite the US Federal Reserve raising rates, global financial conditions are getting easier, not tighter. This can be attributed to global quantitative easing, a weaker US dollar, rising equity markets and tightening credit spreads. There is a helpful fiscal tailwind across developed markets, given further impetus by President Trump's tax cuts. Labour markets are tightening gradually and we are seeing positive wage inflation. Lastly, a case can be made that we are at a favourable point in the inventory cycle with significant destocking over the last few years. It is for this reason we maintain our equity positions (albeit at an overall low weighting of 43%) and have focused on cyclical stocks.

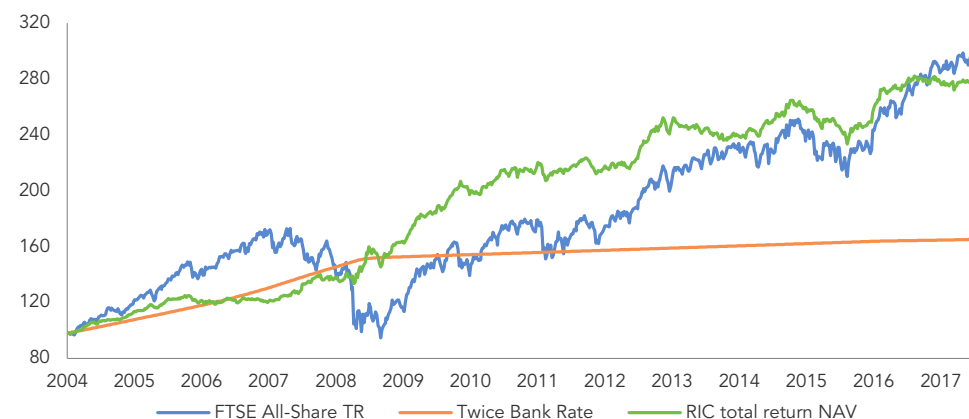
With this rose-tinted outlook, investors might ask why we are not more bullish? The answer is our concern regarding valuations and technical stresses and skews in financial markets. Most investors accept, after nine years of zero rates and quantitative easing, that valuations across almost all asset classes have reached extraordinary levels. The wall of worry has been demolished and animal spirits are ablaze. Not convinced? Could we have experienced a cryptocurrency boom in the dark days of 2008 when trust in banks and fiat currency was at rock bottom?

The less obvious risk relates to investment behaviours that have evolved in recent years. Volatility is an obscure financial metric, having morphed from an observed output and barometer of financial stress, into a widely used input for many investment strategies. Goodhart's Law tells us 'when a measure becomes a target, it ceases to be a good measure'. We estimate at least \$1 trillion is, explicitly or implicitly, invested in assets using strategies designed to make money as volatility falls and leverages exposure to risky assets the more this continues. This self-feeding mechanism is inherently unstable and if events cause a reversal (ie a spike in volatility) the result could be a sharp sell-off in asset markets. This process is exacerbated by the rise of computer-driven trading models and passive investment, both of which are strictly rule-based and unthinking in execution. As such, it seems to us the seeds of the next financial crisis are in the fund management industry, not the banking system. The last few days of January may provide a hint of what is to come. Unlike bonds in 2008 or old-economy stocks in 2000, there are no conventional moneymaking protective assets in which to hide and thus, despite their uncomfortable cost of carry, we believe our options and illiquid strategies to be absolutely essential.

## 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 %	January 2018	Year to date	1 year	3 years	5 years	10 years
Total return NAV	-0.3	-0.3	0.1	10.0	19.8	109.1
Share price TR <sup>1</sup>	0.5	0.5	0.8	16.7	21.9	120.9

<sup>1</sup>Assumes re-investment of dividends

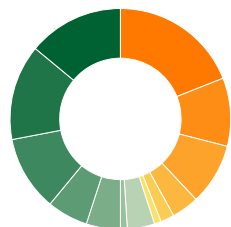
Percentage growth in total return NAV	%	As at 31 January 2018	p
31 Dec 2016 – 31 Dec 2017	1.6	<b>Share price</b>	<b>237.00</b>
31 Dec 2015 – 31 Dec 2016	12.4	<b>Net Asset Value (NAV) per share</b>	<b>230.11</b>
			%
31 Dec 2014 – 31 Dec 2015	-1.0	Premium/discount to NAV	3.0
31 Dec 2013 – 31 Dec 2014	1.8	NAV total return since inception <sup>2</sup>	186.0
31 Dec 2012 – 31 Dec 2013	9.5	Standard deviation <sup>3</sup>	1.86
		Maximum drawdown <sup>3</sup>	-8.61

Source: Ruffer AIFM Limited, FTSE International (FTSE)<sup>†</sup>

<sup>2</sup>Including 34.5p of dividends <sup>3</sup>Monthly data (total return NAV)

# Ruffer Investment Company Limited as at 31 Jan 2018

## Asset allocation



Asset allocation	%
• Cash	14
• Non-UK index-linked	14
• Long dated index-linked	11
• Index-linked gilts	6
• Gold and gold equities	5
• Options	1
• Protective illiquid strategies	4
• Japan equities	19
• UK equities	10
• North America equities	9
• Asia ex-Japan equities	4
• Europe equities	2
• Growth illiquid strategies	1
Currency allocation	%
• Sterling	77
• Yen	8
• US dollar	8
• Gold	5
• Other	2

## Currency allocation



## 10 largest of 56 equity holdings\*

Stock	% of fund
T&D Holdings	2.7
Lloyds Banking Group	2.2
Sumitomo Mitsui Financial Group	2.2
Mitsubishi UFJ Finance	1.9
Mizuho Financial	1.9
Resona Holdings	1.5
Vivendi SA	1.5
Walt Disney	1.3
Japan Post	1.1
Tesco plc	1.1

## 5 largest of 9 bond holdings

Stock	% of fund
0.375% Treasury index-linked 2062	5.5
0.125% Treasury index-linked 2068	4.8
1.875% Treasury index-linked 2022	3.9
US Treasury 0.625% TIPS 2021	3.8
US Treasury 0.125% TIPS 2023	3.3

\*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](http://www.ruffer.co.uk).

NAV £396.2m Market capitalisation £408.1m Shares in issue 172,188,416

## 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 31 January 2018, assets managed by the group exceeded £22.8bn.