Ruffer Total Return International – Australia Fund

Positive returns with low volatility

July 2023 **Issue 32**

The Federal Reserve, the IMF, the Bank of England and Goldman Sachs amongst others have moved their forecasts to suggest a soft landing, or no landing, is the most likely outcome for the global economy. A new, rosier narrative has emerged: that a recession will be avoided, and immaculate disinflation has been achieved vindicating market bulls and central bankers alike. The Nasdaq is up 37% year to date, performance to rival the dot.com boom.

This looks to us like a prime example of price action driving the narrative. Markets think a recession can be avoided because markets are going up. However, economic fundamentals continue to weaken with a reduced availability of credit, visible cracks in a previously strong labour market, and other key leading indicators such as manufacturing survey data are now in recessionary territory. Meanwhile, monetary conditions continue to tighten as global central banks raise rates and quantitative tightening (QT) continues apace. We believe that both the economy and financial ecosystem are conditioned to low interest rates and are incapable of enduring interest rates in excess of 5%.

At the same time, real yields are dramatically increasing – now as high as 3% on two year US inflation protected bonds. We have previously focused on the speed at which real yields have risen, as a guide to market fragility. This year real yields have risen slowly, but inexorably, and we think the second half of 2023 will be about discovering where the biting point is. If history is our guide, it is close.

In July, the rise in global real yields hurt inflation linked bonds. The mix of derivative protections were also a small drag. These were more than offset by our oil exposure, the biggest risk-on asset in the portfolio, which rose 14% in the month in response to further OPEC supply cuts.

On the penultimate day of the month the Bank of Japan ended their yield curve control policy. The news was met with a pop rather than a bang – the yen didn't move much. However, that pop was the starting pistol for something bigger. We have considerable exposure to the yen, directly and via derivatives, and believe these positions have a long way to run. We believe the end of extreme monetary policy divergence, forcing all weakness through the currency, should see a material strengthening in the yen. Japanese government bond yields floating higher may be the final anchor to slip loose on global duration, which could have ripples across other capital markets.

The surge in risk appetite from the presumed economic 'all clear' has allowed credit spreads to tighten, equity market puts have become cheaper still, and equity volatility (measured by the VIX) has now fallen back to pre-covid levels. Having cost the portfolio year to date, these protections are now highly attractive and, usually, tend to be most advantageous when nobody wants them.

The overarching message to our investors is that we have been here before, and that feeling uncomfortable is sometimes necessary for differentiated results. We retain a high level of conviction that the portfolio is correctly positioned given the environment we see and hope to deliver on the patience and faith shown in us by our investors this year.

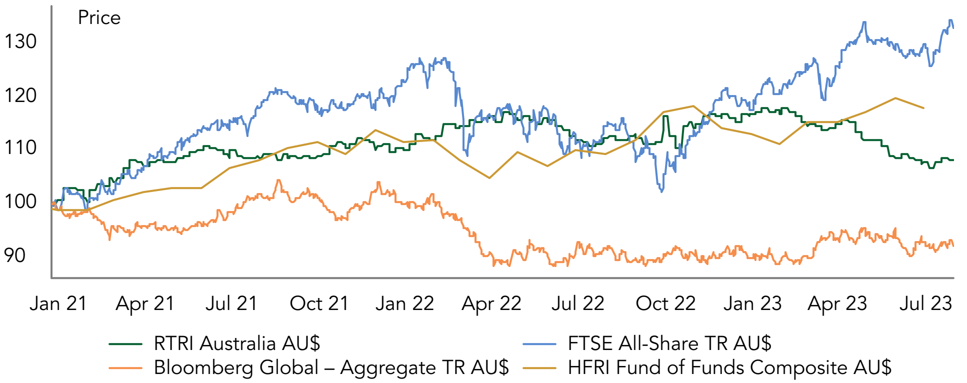
Investment objective

The investment objective of the fund is to achieve low volatility, positive returns from an actively managed portfolio. The fund may have exposure to the following asset classes: cash, debt, securities of any type (including government and corporate debt), equities and equity related securities and commodities (including precious metals). Overriding this objective is a fundamental philosophy of capital preservation. Investors should note that there can be no assurance that the investment objective will be achieved. Returns are not guaranteed.

Target Market Summary

This product is likely to be appropriate for a consumer seeking capital growth and capital preservation to be used as a core or satellite component within a portfolio where the consumer has a minimum five year investment timeframe, medium to high risk/ return profile and needs weekly access to capital.

Performance since sub-fund launch on 24 December 2020



RTRI Australia capitalisation shares	Performance %
July 2023	0.3
Year to date	-7.3
1 year	-3.6
Since Inception	8.4

As at 31 July 2023	AUD
Unit price	1.0842

Source: Ruffer LLP, RTRI – Australia Fund.

Past performance is not an indicator of future performance.

12 month performance to June %	2022	2023
RTRI Australia AU$	3.1	-3.5
FTSE All-Share TR AU$	-2.4	16.7
Bloomberg Global – Aggregate TR AU$	-7.5	1.9
HFRI Fund of Funds Composite AU$	3.2	7.1

Source: Ruffer LLP, FTSE International, Bloomberg, HFRI. Ruffer performance is shown in AUD after deduction of all fees and management charges, and on the basis of income being reinvested. Calendar quarter data has been used up to the latest quarter end and monthly data thereafter. The comparator benchmarks shown are those of the underlying fund, hedged in AUD, which were chosen because they represent the investible universe of the strategy, both in terms of instruments and geographies.

Ruffer Total Return International – Australia Fund as at 31 Jul 2023

Fund size AUD$283.6m

Asset allocation – underlying fund (RTRI)

Asset allocation	%
Short-dated bonds	27.9
Cash	14.5
Non-UK index-linked	13.6
Long-dated index-linked gilts	8.4
Gold exposure and gold equities	5.5
Index-linked gilts	5.5
Protection strategies	2.0
Commodity exposure	8.2
UK equities	5.1
North America equities	3.7
Europe equities	2.6
Asia ex-Japan equities	2.5
Other equities	0.5

10 largest equity holdings*

Stock	% of fund
iShares MSCI China A UCITS ETF	1.1
BP	0.9
Alibaba Group Holding	0.8
Ryanair	0.7
Bayer AG	0.6
Taiwan Semiconductor Manufacturing Co	0.6
Ambev SA	0.5
Glencore	0.4
Cigna	0.4
Vallourec	0.3

5 largest bond holdings

Stock	% of fund
US Treasury 0.625% TIPS 2024	6.0
UK Treasury index-linked 2.5% 2024	4.7
US Treasury FRN 31 Oct 2024	4.5
Australian govt bonds 2.75% 2024	3.6
US Treasury 0.125% TIPS 2052	3.5

*Excludes holdings in Ruffer funds

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

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Fund information

	%
Asset class	Multi-Asset
Fund inception date	24 December 2020
Fund base currency	AUD
Fund structure	Managed Investment Scheme
Fund regulator	The Australian Securities and Investments Commission (ASIC)
Distribution	Annual, although not expected. The year end is 30 June

APIR	ISIN	ARSN
PIM1038AU	AU60PIM10382	643 278 693

Bloomberg	PIM1038 AU
Buy/sell spread	0%
Minimum initial investment	AUD$20,000
Management costs	1.07% per annum of the net asset value of the Fund comprising: Fund level fees and costs of 0.9% Indirect costs of 0.17%
Dealing Day	Weekly, typically a Thursday*
Subscription and redemption cut-off	Weekly, typically 2pm Friday*
Subscription and redemption settlement dates	T+5, typically a Thursday*
Investment Manager	Ruffer LLP
Responsible Entity	The Trust Company (RE Services) Limited
Custodian and Administrator	Apex Fund Services Pty Ltd
Auditors	Ernst & Young

*The Fund's Dealing Day, subscription and redemption cut-off will be impacted by public holidays in Luxembourg, the UK and/or Australia. Impacted dates are available from ruffer.co.uk/rtri-au

Zenith Investment Partners Recommended

Recommended Lonsec Research

Fund Manager

Alex Lennard

INVESTMENT DIRECTOR

Joined Ruffer in 2006 after graduating from Exeter University with an honours degree in economics and finance. He is a member of the CISI. He is co-manager of two of Ruffer's flagship funds.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 30 June 2023, assets managed by the Ruffer Group exceeded A$47.1bn.

Enquiries

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