Ruffer Investment Company Limited

Unaudited results announcement
for the year ended
30 June 2018

The following is an unaudited results announcement for the year to 30 June 2018, which was approved by the Board on 20 July 2018. The full audited Annual Financial Report for the year ended 30 June 2018 will be released on the London Stock Exchange in September 2018.

Key Performance Indicators

	30 Jun 18	30 Jun 17
Share price total return over 12 months*	(1.0%)	12.90%
NAV total return per share over 12 months	0.8%	8.75%
Premium of share price to NAV	0.89%	3.04%
Dividends per share over 12 months	1.8p	2.6p
Annual dividend yield	0.78%	1.10%
Annualised total return per share since launch	7.80%	8.35%

Financial Highlights

	30 Jun 18	30 Jun 17
Share price	231.00p	236.00p
NAV**	£405,711,462	£376,116,913
Market capitalisation	£411,608,690	£387,543,662
Number of shares in issue	177,188,416	164,213,416
NAV per share at year end as reported to the LSE	228.97p	229.04p

* Assumes re-investment of dividends.

** This is the NAV as released on the London Stock Exchange ("LSE") on 30 June each year and may differ from the audited NAV shown in the full Annual Financial Report.

Chairman's Review

Once again, this year your Directors are releasing an abbreviated, unaudited financial report for the year to 30 June 2018. We wanted to do this to give the Shareholders a more timely view of the highlights of the year rather than waiting until September when the fully audited Annual Financial Report will be available.

Performance

The Company's objective is to achieve a positive total annual return, after all expenses, of at least twice the Bank of England base rate. The Bank of England doubled rates to 0.5% on 2 November 2017 and there they have stayed, at least at the time of writing. The blended average rate for the 12-month period ended 30 June was therefore 0.4%, which gave the Company a target return of 0.8%. In the twelve months from 1 July 2017 to 30 June 2018, the net asset value (NAV) per share of the Company fell from 229.04p to 228.97p. Adding dividends of 1.8p paid during the period, this equates to a total return of 0.8%. This return, whilst in line with the target, is pedestrian against last year's 8.8% return and falls below the annualised return generated since the Company was launched in 2004 of 7.8%. By way of context, the FTSE All-Share Total Return index rose by 9% over the year. However, it is worth pointing out that our objective is to preserve capital and not to try and shoot the lights out, especially when those lights are so elevated and burning brightly. Since launch, the NAV of the Company has risen by 185.7% including dividends, compared with a rise of 69.4% in the target return and 216.3% in the FTSE All-Share Total Return index.

As our Manager explains later in this report the drag on our performance was largely down to the cost of option protection and the illiquid strategy funds. We regard this portfolio protection as essential for without it we believe that we would be exposed when the tide goes out. The near 10% fall in equity markets in early February 2018 was instructive. Some were disappointed that the Company did not manage to produce a positive return over that month even if the level of volatility was lower than the market and the return 2% higher. Our protection is designed to shield us from a storm (15%+ falls) rather than a heavy shower. Naturally, our manager wanted to keep the portfolio protected, and so quite a lot of the options subsequently expired worthless as markets rebounded.

Earnings and Dividends

Earnings for the year were 1.83p per share on the revenue account and 0.38p per share on the capital account. Earnings from the revenue account remain depressed owing to the heavy weighting in index-linked securities, illiquid strategy funds, options, gold and gold equities, most of which yield next to nothing. As you will be aware the Directors cut the interim dividend from 1.7p to 0.9p per share on 28 February 2017. At present it looks as if a total annual dividend of 1.8p will be sustainable, but the Directors will not hesitate to reduce the dividend again should this prove necessary. As far as setting the dividend is concerned the Directors are determined to give the Investment Manager maximum flexibility to follow whichever course will lead to the best total return for our shareholders. We regard income as a by-product of the investment process and we will not draw on capital to maintain the dividend.

Share issuance

I often remark, when people ask me about how the market feels about Ruffer's performance, that I regard the best indicator to be the premium or discount at which your Company's shares trade relative to our NAV per share. There has scarcely been a week when your Company has not traded at a premium during the reporting period and indeed shares were issued to meet demand in 34 weeks. The fact that the market is prepared to pay a 1.5 – 2.5% premium to acquire your Company's shares indicates that investors are happy with the Ruffer approach. Incidentally, it helps that we are Guernsey domiciled since buyers do not have to pay the 0.5% stamp duty, on purchases of the Company's shares in the secondary market, which would otherwise pertain were we to be domiciled onshore. Over the period under review we issued 12.98m shares, which raised £30.2m for the Company, and enhanced the NAV by 0.34p. Your Directors are committed to never issuing shares which will dilute existing shareholders.

I mentioned last year that it was our medium-term ambition to raise the market capitalisation of the Company to £500m through performance and tapping out shares. This would help marketability through improved liquidity as well as spreading the fixed costs over a larger number of shares thus reducing the Ongoing Charges figure. On the flip side of issuance, we have the authority to buy back shares if the NAV was to fall to a persistent discount – we do not think it wise to have a rigid formula in place, but rest assured that we would act, as we have before, if the Company's share price fell to a meaningful discount to net asset value.

Better communications

Over the year we have sought to improve our communications with shareholders. We have engaged Kepler Partners to augment our marketing activities and we have piggy backed, at no cost to the shareholders, on Ruffer LLP's long standing relationship with their retained PR firm, Four Broadgate. I am confident that these two excellent organisations, coupled with the very capable team at Ruffer, will improve shareholder communications and help maintain liquidity in the shares.

We know that we have some way still to go but we have, through search engine optimisation, improved access to the Company's webpage. It previously took as many as six clicks through Google, whereas it is now possible in two. There is a wholesale improvement in Ruffer's online presence due to 'go live' in the autumn. You may have noticed a few improvements in the layout of this report and we are committed to making it more reader friendly in the future.

There was nothing wrong with our old broker, but the same team had been with this Company since its foundation, and in January, following a thorough review and beauty parade, we appointed Cannacord Genuity in their place. They have made an excellent start. Your Directors occasionally accompany the managers to meetings with institutional investors and these opportunities give us invaluable insights and enable us to keep abreast of the ongoing strategy. All the Directors spend a day each June 'kicking the tyres' at Ruffer in their London offices; each of our top twenty shareholders are invited to have lunch with us and the manager. The feedback from those attending was that they appreciated meeting and hearing from the Board and very importantly from the Manager.

On a more mundane note, your Directors are attempting to reduce our printing costs and hope to save a few trees by asking our shareholders to 'opt in' for receiving hard copies of the Annual and Interim Reports and Accounts. If we do not hear from you we will assume that you will be happy to receive the paperwork through our improved website and we will take you off the distribution list for physical copies.

Board changes

Having presided over a three-year transition period, when the last four Directors present at the inception of the Company retired, I was looking forward to finding my own successor, when at the beginning of this year, Sarah Evans, our charismatic and very capable Chair of the Audit Committee decided to step down for health reasons. After an exhaustive search and some interesting interviews, we decided to appoint David Staples, a Guernsey resident, committed investment trust non-executive Director and audit committee chairman and an experienced former PwC UK partner, who impressed us all. We nearly lost the services of Jill May, appointed to your Board in March 2017, when she was asked to join the Board of the Prudential Regulatory Authority, but happily there is no conflict.

Regulatory developments

It seems to me that an increasing amount of time during our Board meetings is being taken up with preparing for and reacting to regulatory changes. Most of these are helpful but some are not.

I am certainly not the first company Director to complain about the wholly misleading Key Information Documents (KIDs) which were part of the Markets in Financial Instruments Directive II (MiFID II) regime. These came into force on 3 January 2018. The way in which the KID is required to be prepared is for historic information to be used to extrapolate likely future returns. This creates a projection for future returns which is almost certain to be wrong, especially after a bull market in bonds which has lasted for rather more than thirty years and at a time when interest rates are at multi-generational lows. I was always taught not to drive through the rear-view mirror, but to try to look to the road ahead.

Happily, our industry body, the Association of Investment Companies (AIC), of which your Company is a member, has been vocal in its condemnation of the performance and risk elements KIDs and they have refused to publish them on their website. A study carried out by the AIC showed that 42 out of 384 KIDs produced for investment companies indicated possible future returns of more than 20% per year in the 'moderate' performance scenario. Meanwhile, 45 investment company KIDs suggested possible future returns of more than 10% in an 'unfavourable' performance scenario.

Considerable thought and paperwork went into preparing for the introduction of the General Data Protection Regulations (GDPR), which was implemented on 25 May 2018. We are now beginning to work on the Senior Managers & Certification Regime (SMCR), which will replace the current Approved Persons Regime on 9 December 2019.

Annual General Meeting

The AGM of the Company will be held at 12 noon on 4 December 2018 at the Company's registered offices at Trafalgar Court, Les Banques, St Peter Port, Guernsey.

Share Buyback Authority

I have already touched upon this power, which has not been invoked over the period of this report. Nevertheless, the Board has resolved to seek, at the AGM on 4 December 2018, a renewal of its authority to buy back shares at a discount to NAV under the terms to be stated in a Special Resolution.

Share Redemption Facility

The Company has a Redemption Facility operable in November each year. Given the fact that the Company traded above or close to its NAV for most of the year under report, and the fact that it is currently trading at a 1-2% premium to NAV the Board is unlikely to offer this facility in November 2018.

Directors and Related Party Share Purchases

I acquired 10,000 shares on 22 January at 238.39p, whilst my wife acquired 5,000 shares at the same price on the same day. David Staples acquired 20,000 shares on 10 April at 227.34p and a further 20,000 shares in the Company on 1 May at 229.48p. Jill May acquired 11,000 shares on 11 June at a price of 232.86p.

Ruffer LLP

I devoted some time last year to describing the unique culture at Ruffer and I am happy to report that it continues to thrive. As at 30 June 2018 assets managed by Ruffer exceeded £22bn, up from £21.3bn 12 months earlier; the firm's defensive posture is still attracting asset inflows. Jonathan Ruffer remains involved in both the strategic direction of Ruffer LLP and the research process.

I am as confident as I can be in these deeply uncertain times that the Company's strategy is sound. We should prepare for troubled times ahead whilst looking for undervalued equities to generate a return for shareholders should the denouement be further off than envisaged. If our Manager is right, and the next crisis is a generational event in terms of wealth distribution, then it will be a hard task to keep shareholders' capital safe. Yet that is the job we are charged with. We believe there will be sunny uplands on the other side for a buyer whose capital has not been eroded.

Ashe Windham

20 July 2018

Investment Manager's Report

Performance review

The Chairman's Review has already provided the headline numbers. At the date of the last Annual Report the Company was showing a healthy 12 month return of 8.8% from a defensively positioned portfolio. This year with a similarly defensive portfolio we have virtually flat-lined. While this is in line with the target return and achieves the primary objective of capital preservation, we would like to be compounding at a higher rate over the long term – closer to the annualised return since inception in 2004 of 7.8%. When we compare the breakdown of returns in the last two years there was a similar cost to the Company's protective investments, but the difference is in the returns made in the equity book. In the last 12 months our contrarian stance on UK equities was a bright spot contributing 238 basis points per share ("bps"), but our focus on cyclical and value stocks elsewhere was not rewarded; US equities contributed 76 bps and Japan and Europe 45 bps each. Index-linked bonds and gold made small positive contributions (44 bps and 17 bps respectively). That left the dragging anchors of option protection (-213 bps) and the illiquid strategies vehicles (-56 bps). We do not bemoan the cost of these insurance policies (indeed in a world where the rising tide of low interest rates and stimulative monetary policy has floated all boats, such negatively correlated assets are invaluable).

Current asset allocation

Shareholders often ask how we put the Company's portfolio together given that we are benchmark agnostic and therefore genuinely start with a blank canvas rather than having to look over our shoulder at the composition of a comparator. We choose to start with our primary objective – namely to protect shareholders' capital come what may. However, we will place their capital at risk in order to achieve a rate of return ahead of the riskless alternative of cash. As such, we consider the risks and the likelihood of each risk materialising. It is not desirable to try to protect against all possible eventualities or we would end up making no excess return over cash. For example, if we were to try to protect against a deflationary slump at present it would mean buying expensive conventional bonds where the potential downside exceeds the likely upside in a scenario which we think has a low probability of actually occurring. Some risks will be to the upside – if protection is held against a sharp fall in equity markets and the market keeps rising then clearly our protection will be a cost to shareholders. This means that we will hold equities to capture some of that upside. Many investment houses think that equities are the only place to be whereas we see them as one weapon in a multi-asset armoury. Our underweight position compared to others can make us appear to be permanently bearish on equities but this is not the case; the 41% position we hold in equities has ability to make or lose a lot of money. It is an asset class to be used judiciously. Typically we will look for undervalued companies where there is a catalyst for change or the stock fits in with our macro view. For example, Japanese life assurers are much cheaper than their western counterparts, will participate in rising global equity markets and will be beneficiaries of Abe and Kuroda's reflationary policies.

Given that every investment contains an element of risk, the key to being a successful absolute return investor is either to ensure that one is always right (I am afraid that we have yet to master this trick) or find assets that will genuinely move in different directions. A lot of investors claim to hold diversified portfolios, but we fear that in an environment of rising bond yields and falling equity markets (yes, this can happen) that those alternative income stocks, overvalued defensive equities and infrastructure products will prove to be positively correlated. If you are keeping pace with a rising market on the way up then it is highly likely that you will do so on the way down as well.

So to return to the blank canvas, rather than saying 'Should we have x% or y% in a certain sector?' or 'How can we afford not to hold x and y?' we ask the questions 'Do we have to hold these positions at all?', 'What do they contribute to the portfolio as a whole?' and 'Under what circumstances could such an investment hurt us?'

The final spoke in the wheel is market timing and we do not profess to have any advantage over others in this respect. It is the hardest part of investing, but if the above logic is successfully applied then it should become less relevant; we are not concerned about eking out every last cent of a bull market – it is better to have our positions in place ahead of time and lag on the way up than have a beta of one on the way down. It is a philosophy that has served us well over the last 24 years.

Current portfolio construction

How does this logic translate into today's asset allocation in the Company? Index-linked bonds (31% split between UK linkers and US Treasury Inflation Index Bonds or "TIPS") are a key part of the armoury in protecting shareholders from what we consider to be the inevitable denouement for an over-indebted western society – inflation well above the level of nominal interest rates. Gold (5%) also has a role to play here if currency debasement forms part of that inflationary 'solution'. Japanese equities (16%) benefit from both global economic growth, a domestic recovery story being trumpeted by Prime Minister Abe and it is also one of the only economies which would truly benefit from rising inflation. Importantly, these opportunities can also be captured at reasonable valuations in Japan as it remains out of favour with western investors. The Company's UK, US and European equities (24%) are a blend of special situations (stocks which we think offer an interesting risk/reward trade-off regardless of wider economic conditions) and beneficiaries of rising bond yields – something that would hurt other parts of the portfolio. These positions effectively buy us time – if we are right about our outlook for the global economy but too early, then they will generate a return for us in the meantime. Currencies have an important role to play. The default position is to maintain a large weighting to the Company's base currency (sterling) but we currently hold 17% in the dollar and 5% in the yen which should offer protection against a UK specific event or a wider economic crisis. Finally, there are the straight protective investments in the option book (1%), which protects against rising bond yields and falling equity markets and the illiquid strategies investments (5%) protecting against a dislocation in credit markets or rising volatility.

Investment Outlook

It is safe to say that we are worried about the outlook for markets. The 10% fall in global equities at the start of February gave investors a peek under the curtain at some of the worrying technical dynamics in global markets. High valuations in many areas are justified only by the cheap cost of money and so any news which will lead to bond yields rising faster than expected (for example wage growth, inflation or widening credit spreads) undermines this position. At the same time liquidity in financial markets has been greatly reduced by structural changes brought about by regulation since the financial crisis. This need not be the catalyst for a crisis, but it means that markets are more crash prone – limited liquidity will amplify market moves. This is not helped by the exponential growth of unthinking passive vehicles (aka Exchange Traded Funds), which create virtuous circles on the way up, but vicious ones on the way down. Huge debt issuance by low grade corporates and sovereigns and a general hunger for yield at any price has created products where there is a mismatch between the liquidity of the vehicles in which the credit instruments are held (they typically promise daily or weekly dealing opportunities) and the underlying assets, which may not trade at all on a weekly basis. Finally, there are perversities in the trading of volatility. For the last 10 years investors have been encouraged to sell volatility because at the first sign of trouble the world's central banks have moved swiftly to calm investors' nerves. On top of this volatility has become both an output and an input of the investment process. Most risk models have volatility at their core and so low volatility acts as a signal to leverage up and buy. February briefly showed how this can create distortions, which unwind very quickly when the wind changes. We took some profits in our volatility call options in early February, but we maintain the view that these events were likely a tremor before the earthquake.

This all makes for chastening reading, but we feel that these risks are immediate enough to warrant taking positive action now and we would be doing our investors a disservice to ignore them in the hope of capturing the final hoorah in a long-in-the-tooth bull market. Our belief is that the protective investments in the Company will carry us through the next crisis but, given that we do not know its timing, the equity book has an important role to play to allow us to generate a return for shareholders if these events prove to be some way off.

Ruffer AIFM
20 July 2018

Portfolio Statement
as at 30 June 2018

	Currency	Holding at 30 Jun 18	Fair Value £	% of Total Net Assets
Government Index-Linked Bonds 31.15%				
(30.06.17 – 39.09%)				
United Kingdom				
UK Index-Linked Gilt 0.125% 22/11/2019	GBP	6,135,000	7,117,637	1.75
UK Index-Linked Gilt 1.875% 22/11/2022	GBP	9,710,000	15,619,933	3.84
UK Index-Linked Gilt 1.250% 22/11/2055	GBP	1,100,000	3,873,687	0.95
UK Index-Linked Gilt 0.375% 22/03/2062	GBP	8,700,000	22,815,776	5.63
UK Index-Linked Gilt 0.125% 22/03/2068	GBP	8,200,000	21,179,739	5.21
			70,606,772	17.38
United States				
US Treasury Inflation Indexed Bond 1.125% 15/01/2021	USD	13,500,000	11,864,883	2.92
US Treasury Inflation Indexed Bond 0.625% 15/07/2021	USD	19,350,000	16,355,534	4.03
US Treasury Inflation Indexed Bond 0.125% 15/01/2023	USD	17,500,000	14,066,804	3.46
US Treasury Inflation Indexed Bond 0.375% 15/07/2023	USD	17,000,000	13,738,314	3.38
			56,025,535	13.79
Total Government Index-Linked Bonds			126,632,307	31.17
Short Dated Conventional Government Bonds 3.69%				
(30.06.17 – 0.00%)				
United Kingdom				
UK Treasury Bill 0.00% 24/09/2018	GBP	15,000,000	14,980,110	3.69
			14,980,110	3.69
Total Short Dated Conventional Government Bonds			14,980,110	3.69
Equities 40.8%				
(30.06.17 – 40.16%)				
Europe				
France				
Vivendi	EUR	375,000	6,944,281	1.71
			6,944,281	1.71

	Currency	Holding at 30 Jun 18	Fair Value £	% of Total Net Assets
Norway				
Yara International	NOK	80,000	2,512,136	0.62
			2,512,136	0.62
United Kingdom				
Belvoir Lettings	GBP	1,190,295	1,226,004	0.30
Better Capital (2012)	GBP	3,088,700	803,062	0.20
Better Capital (2009)	GBP	294,641	179,731	0.04
Countryside Properties	GBP	700,000	2,403,800	0.59
Dixons Carphone	GBP	1,010,626	1,885,828	0.46
Headlam	GBP	200,000	976,000	0.24
Lloyds Banking Group	GBP	6,500,000	4,096,300	1.01
Ocado Group	GBP	507,000	5,199,285	1.28
PRS Real Estate Investment Trust	GBP	1,141,100	1,186,744	0.29
Royal Bank of Scotland Group	GBP	750,000	1,920,000	0.47
Royal Dutch Shell	GBP	70,000	1,899,450	0.47
Renn Universal Growth Trust	GBP	937,500	1,593,750	0.39
Ruffer SICAV UK Mid & Smaller Companies Fund*	GBP	27,940	6,030,507	1.49
Secure Trust Bank	GBP	58,345	1,061,879	0.26
Shire	GBP	50,000	2,131,500	0.52
Sophos Group	GBP	450,000	2,871,000	0.71
Supermarket Real Estate Investment Trust	GBP	689,907	703,705	0.17
System1 Group	GBP	275,000	770,000	0.19
Tesco	GBP	2,640,660	6,775,934	1.68
Tufton Oceanic Assets	GBP	1,643,100	1,306,764	0.32
Van Elle	GBP	1,525,573	1,266,226	0.31
			46,337,760	11.39
Total European Equities			55,794,177	13.72

	Currency	Holding at 30 Jun 18	Fair Value £	% of Total Net Assets
Canada				
Imperial Oil	CAD	72,000	1,810,859	0.45
Total Canadian Equities			1,810,859	0.45
United States				
Apergy	USD	51,808	1,637,529	0.40
Apple	USD	30,734	4,257,948	1.06
Aptiv	USD	13,000	902,246	0.22
Check Point Software Technologies	USD	50,000	3,698,163	0.91
Cleveland-Cliffs	USD	276,800	1,767,411	0.43
Delphi Technologies	USD	50,000	1,720,886	0.42
DowDuPont	USD	78,000	3,896,307	0.96
Exxon Mobil	USD	57,500	3,607,006	0.89
General Motors	USD	50,000	1,492,899	0.37
Jefferies Financial Group	USD	203,970	3,513,181	0.86
McKesson	USD	28,000	2,831,070	0.70
National Oilwell Varco	USD	77,000	2,530,604	0.62
Tenaris	USD	65,000	1,790,608	0.44
Walt Disney	USD	98,000	7,786,556	1.92
Total United States Equities			41,432,414	10.20
Asia				
China				
China Life Insurance	HKD	459,000	895,138	0.22
PICC Property & Casualty	HKD	900,000	735,087	0.18
			1,630,225	0.40

	Currency	Holding at 30 Jun 18	Fair Value £	% of Total Net Assets
Japan				
Bandai Namco Holdings	JPY	100,000	3,121,635	0.77
LF Ruffer Japanese Fund*	GBP	3,840,000	10,062,336	2.48
Fujifilm Holdings	JPY	100,000	2,953,415	0.73
Hazama Ando	JPY	339,000	2,334,374	0.57
Japan Post Holdings	JPY	525,000	4,351,141	1.07
Mitsubishi Electric	JPY	100,000	1,006,240	0.25
Mitsubishi UFJ Financial Group	JPY	1,407,400	6,064,127	1.49
Mizuho Financial Group	JPY	4,500,000	5,738,952	1.41
NTT Urban Development	JPY	419,000	3,406,726	0.84
Resona Holdings	JPY	1,410,000	5,709,904	1.41
Sony	JPY	68,000	2,632,813	0.65
Sumitomo Mitsui Financial Group	JPY	275,200	8,092,042	1.99
T&D Holdings	JPY	850,000	9,663,220	2.37
			65,136,925	16.03
Total Asian Equities			66,767,150	16.43
Total Equities			165,804,600	40.80
Global Investment Funds 6.18%				
(30.06.17 – 6.56%)				
United Kingdom				
Herald Worldwide Fund	GBP	44,000	2,341,680	0.58
Ruffer Illiquid Multi Strategies Fund 2015*	GBP	31,639,824	20,989,005	5.16
Weiss Korea Opportunity Fund	GBP	1,100,000	1,793,000	0.44
			25,123,685	6.18
Total Global Investment Funds			25,123,685	6.18

	Currency	Holding at 30 Jun 18	Fair Value £	% of Total Net Assets
Gold & Gold Mining Equities 5.08%				
(30.06.17 – 4.59%)				
United Kingdom				
LF Ruffer Gold Fund*	GBP	13,054,495	20,649,601	5.08
			20,649,601	5.08
Total Gold & Gold Mining Equities			20,649,601	5.08
Options 1.36%				
(30.06.17 – 1.69%)				
United Kingdom				
Ruffer Protection Strategies International*	GBP	19,954,731	5,528,259	1.36
Total Options			5,528,259	1.36
Total financial assets at fair value through profit or loss			358,718,562	88.28

These fair values are based on information available at the time of publication and may differ from the amounts shown in the full Annual Financial Report.

* Ruffer Protection Strategies International and Ruffer Illiquid Multi Strategies Fund 2015 Ltd are classed as related parties as they share the same Investment Manager (Ruffer AIFM Limited) as the Company. LF Ruffer Gold Fund, LF Ruffer Japanese Fund and Ruffer SICAV UK Mid & Smaller Companies Fund are also classed as related parties as their investment manager (Ruffer LLP) is the parent of the Company's Investment Manager.