RIT Capital Partners

Healthy absolute return with less risk

RIT Capital Partners (RIT) has established a strong track record over many decades. Over the last five years, its share price total return has almost doubled and it has returned to trading at a premium.

RITs investment style emphasises long-term thinking and the avoidance of permanent capital losses. In recent years, RIT has allocated capital away from equities towards uncorrelated strategies thereby positioning itself in anticipation of a correction in markets.

Grow and preserve shareholders' capital

RIT aims to deliver long-term capital growth, while preserving shareholders' capital. It invests without the constraints of a formal benchmark, but aims to deliver increases in capital value in excess of relevant indices over time. RIT invests in a widely diversified, international portfolio across a range of asset classes, both quoted and unquoted. It allocates part of the portfolio to exceptional managers in order to ensure access to the best external talent available.

RIT compares its investment performance against an absolute hurdle (RPI, plus three percentage points per annum).and an equity hurdle (the MSCI All Countries World Index 50% in sterling). In recent years it has emphasised the preservation of capital over the pursuit of short term growth.

Year ended	Share price total return (%)	NAV total return (%)	MSCI ACWI total return** (%)	RPI + 3% (%)
31/12/13	14.0	18.6	23.0	5.7
31/12/14	13.3	9.4	10.0	4.6
31/12/15	22.7	8.1	2.3	4.2
31/12/16	14.2	12.1	18.8	5.5
31/12/17	5.8	7.6*	16.6	7.1

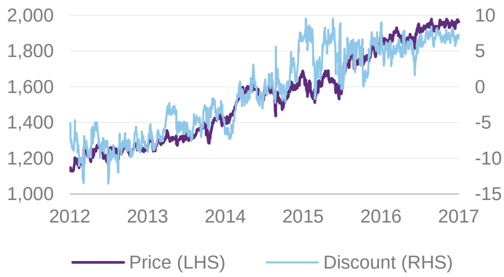
Source: Morningstar, Bloomberg, Marten & Co. Note:* Morningstar estimate **50% MSCI ACWI in sterling and 50% in local currencies

Sector	Flexible investment
Ticker	RCP LN
Base currency	GBP
Price	1,960.00p
NAV*	1,834.1p
Premium/(discount)	6.9%
Yield	1.6%

* Morningstar estimate as at 19 January 2018, last published 1,806p at 30 November 2017.

Share price and discount

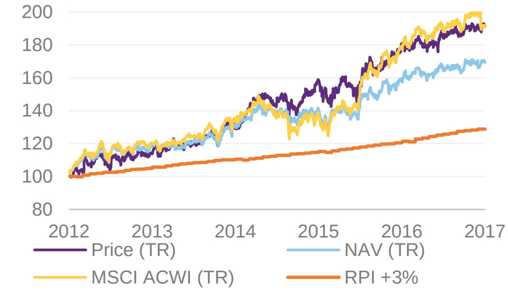
Time period 31/12/2012 to 31/12/2017



Source: Morningstar, Marten & Co

Performance over five years

Time period 31/12/2012 to 31/12/2017



Source: Morningstar, Bloomberg, Marten & Co

Domicile	United Kingdom
Inception date	1 August 1988
Manager	JRCM
Market cap (GBP)	3.0bn
Shares outstanding	155.4m
Daily vol. (1-yr. avg.)	138.5k shares
Net gearing	14.0%

Contents

A port in a storm?

Around 21% of RIT is controlled by the Rothschild family

RIT Capital Partners (RIT) is listed on the London Stock Exchange. Around 21% of shareholder capital is owned by the Rothschild family and Lord Rothschild chairs the Board of Directors. The remaining 79% of the register is spread across wealth managers, institutions and retail investors. In recent years the company has successfully managed to take advantage of the proliferation of online platforms and there has been a significant growth in shareholders holding RIT stock through online distributors.

75% of the upside but only 39% of the downside

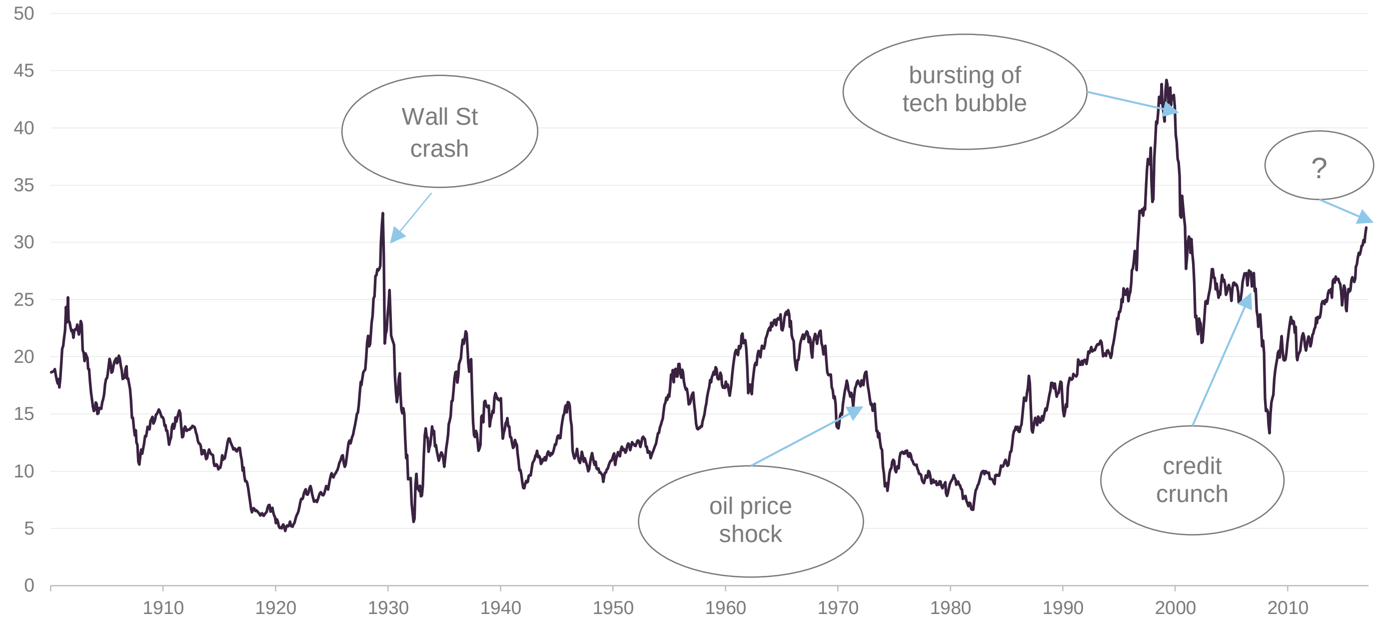
RIT has a long-term approach to investing and this gives rise to an emphasis on capital preservation as well as capital growth. The company is proud of the asymmetric returns achieved; it reports that since August 1988, the trust has participated in 75% of the market upside but only 39% of market declines (to end December 2016). Analysis that we have done supports this pattern of returns. This adds up to an annualised return of 12.5% for RIT's shareholders (from launch to 31 December 2017 in share price terms), well ahead of inflation and global stock markets (as measured by MSCI ACWI). More information on RIT's performance record is provided on page 13.

"There could well be a period ahead of us when the avoidance of risk is as high a priority as the pursuit of gain."

In March 2017, we headlined one of our regular monthly macroeconomic round ups with a quote from Lord Rothschild. He highlighted geopolitical threats, the dangers of fiscal stimulus in the US late in its business cycle and the possibility of new tariffs on international trade. He concluded by saying: "There could well be a period ahead of us when the avoidance of risk is as high a priority as the pursuit of gain."

It is a sentiment that we know many investors share. Since the bursting of the credit bubble, about a decade ago, stock markets have staged a remarkable rally, part of a wider boom in asset valuations in sectors as diverse as property, venture capital and high yield bonds. In large part, this has been achieved because of unprecedented economic and fiscal stimulus provided by governments and central banks. Questions about what happens when this is unwound and what levers are there left to pull if markets run into fresh trouble are hard to answer. Figure 1 shows the Shiller (cyclically adjusted) price/earnings ratio for the S&P 500 since 1900.

Figure 1: Shiller (cyclically adjusted) price/earnings ratio for the S&P 500



Source: Robert Shiller

Figure 2: Real yield on 10-year US Treasury Inflation Protected Securities

Source: US Treasury

'Safe havens' are particularly expensive. Figure 2 shows the real yield on 10-year US Treasury Inflation Protected Securities which is less than 0.5% currently and well below RIT's RPI+3% long-term target return.

RIT stands out from the crowd

Understandably, many investors are cautious on markets, yet their options are narrow. Within the investment company arena, the listed hedge fund sector has been decimated (and perhaps rightly since most of these were poor performers when tested by falling markets). Only a handful of funds, most of which reside in the AIC's Flexible Investment sector have an absolute return approach. Many of these have sought comfort in cash, short-dated government bonds and gold but these assets offer low to negative real returns. RIT stands out from this crowd by building a portfolio with distinctive and independent sources of return that it feels will withstand the oncoming storm.

Fund profile

Returns measured against world stock markets and inflation

RIT aims to deliver long-term capital growth, while preserving shareholders' capital, investing without the constraints of a formal benchmark, but delivering for shareholders increases in capital value in excess of the relevant indices over time.

RIT measures its investment performance against an absolute hurdle (RPI, plus three percentage points per annum) and an equity hurdle (the MSCI All Countries World Index 50% in sterling). In recent years it has emphasised the preservation of capital over the pursuit of short term growth.

The company's website is at www.ritcap.com

RIT is a self-managed, UK domiciled, investment trust. It evolved from the Rothschild Investment Trust which was originally associated with the family bank, NM Rothschild & Sons. It took on its current listed form as RIT Capital Partners plc in August 1988.

One of the key features of recent years has been the establishment for the first time of an Executive Committee which runs the company. It is led by Chief Executive, Francesco Goedhuis and comprises three other senior executives – Ron Tabbouche, Chief Investment Officer, Andrew Jones, Chief Financial Officer and Jonathan Kestenbaum, Chief Operating Officer. The stability of the team, which has just marked five years together, has gone a long way to answering questions over the long-term continuity of the firm.

The Rothschild brand opens doors

In addition to the management team, the Rothschild 'brand' and the extensive network of connections that the family has established over the years give RIT considerable advantages in terms of deal sourcing and accessing expertise.

Every part of the portfolio should earn its keep

RIT has a truly multi-asset portfolio. Delivering capital growth is important but the company believes that shareholders do not expect the portfolio to outperform consistently 'frothy' markets. The management of risk is central to the investment approach. Unlike some peers who seek to preserve shareholders' capital by 'hiding' in liquid assets, which offer low or even negative real returns, RIT allocates to investment strategies that offer the potential of returns uncorrelated with equity markets. RIT also makes use of other strategies that offer downside protection in the event of market volatility (see pages 6 and 7).

RIT has two principal operating subsidiaries, J.Rothschild Capital Management (JRCM) and Spencer House Limited.

JRCM

JRCM is the principal subsidiary of RIT Capital Partners plc and responsible for the day to day management of the company in its capacity as investment manager. As mentioned above, it is led by an executive committee and brief biographies of this team are provided on pages 19 and 20.

A separate investment committee oversees the investment decisions made on behalf of RIT. This committee is chaired by Lord Rothschild. Francesco, Ron and Andrew sit on the committee and two external advisers, Ed Eisler and Roberto Ruhman, help contribute to its decision making.

At the end of December 2016, JRCM employed 46 people, comprising a mix of investment professionals and support staff.

JRCM has great depth of knowledge and expertise but we think that one of JRCM's strengths is its willingness to capitalise on its network and thereby build a portfolio with diverse sources of return. This includes the identification of carefully selected external managers with specialist expertise, as well as a strong stable of private investments.

Spencer House Limited

You can read more about Spencer House at www.spencerhouse.co.uk

Spencer House Limited is a small wholly owned RIT subsidiary. It is responsible for the management of the RIT property portfolio as well as the running of the Spencer House events business in St James's Spencer House, which also serves as the company HQ.

Investment process

“Fishing in different ponds”

RIT’s portfolio comprises a number of distinct types of investment subject to independent drivers of risk and return. JRCM describes this as “fishing in different ponds” for investment returns. In this way they aim to reduce the degree to which the portfolio is exposed to overlapping drivers of risk and return.

Returns are driven by six ‘cylinders’

The managers divide investments into six distinctive investment ‘cylinders’:

- thematic top-down;
- externally managed equities;
- single stocks;
- private investments;
- uncorrelated strategies; and
- currency.

Each cylinder has different returns drivers which are unlikely to ‘fire’ at the same time but, if the team get the portfolio construction right, there will always be a part of the portfolio that is creating value for investors. Hence in recent years we have seen different cylinders driving returns, in different ways - each under different market conditions.

All new investments are comprehensively analysed by the investment team led by the CIO, in the first instance and then brought to the investment committee for approval.

The committee meets weekly and in addition to scrutinising investment proposals is also responsible for monitoring overall exposures. Close scrutiny of investment performance also serves as a risk management tool in that commonality of strong or poor performance from investments that are not supposed to be correlated rings alarm bells.

First cylinder - thematic, top-down macro overlay and risk control

The ability to hedge exposures against relatively short-term swings in sentiment is invaluable

The top-down, thematic, macro overlay and risk control element of the investment approach is a key ingredient in RIT’s success. Identifying macro themes (and the risk that comes with them) can expose attractive investment opportunities whilst also protecting the portfolio from potentially extreme market moves. As investment ideas sometimes take years to come to full fruition, the ability to hedge exposures against relatively short- term swings in sentiment is invaluable.

Thematic, top-down matters are a core consideration of the Investment Committee who in turn draw on the expertise of both the internal team and JRCM’s extensive network. They set overall risk levels and the asset allocation framework. These are informed at the weekly Investment Committee by deep quantitative analysis and years of investment experience which have helped highlight opportunities and threats.

When the process identifies potential investment opportunities, the time horizon for these affects how they choose to express their views. Typically, they would not recruit an external manager to exploit a short-to-medium-term opportunity; instead they might use derivatives, ETFs or have a basket of stocks curated for them.

As an example, in February 2016, they found that their underlying managers were almost universally pessimistic. They thought about what macro story might emerge that could turn the situation on its head and identified a possibility that the Fed might admit that it was tightening too fast. They bought call options on emerging markets and reduced the dollar exposure within the portfolio but stuck with the underlying managers. This strategy paid off.

Tail hedging is used when it is cost-effective to do so

The team does not apply tail hedging consistently to the portfolio and it does not buy such protection when it is expensive. Today, volatility is low and therefore protection can be obtained relatively cheaply. The portfolio has positions in gold and US interest rate futures.

They may also look to benefit from upside tail scenarios. For example, they bought 2-month FTSE call options for about 10% of the portfolio at a time when they felt the FTSE was undervalued. This view reflected a number of factors such as a belief that energy prices could rise, benefiting the mega cap stocks exposed to that area.

Underlying turnover is low

Turnover within the core portfolio is low, however, positions are frequently adjusted to accommodate changes in the risk/return outlook for sectors, geographies and currencies.

Second cylinder - externally managed/advised equity portfolios

This second cylinder has historically been a large part of RIT's portfolio. It can be broken down into long-only funds and hedge funds and, for the past few years, RIT has been publishing the split between the two. At the end of November 2017, these accounted for 35% and 21% of the portfolio respectively.

Eight in 10 of RIT's external managers are closed to new business

The company's readiness to commit capital for the long-term and maintain it through market cycles is attractive to the underlying managers. Eight in 10 of RIT's external managers are closed to new money. A RIT shareholder has access to specialist managers that they would not otherwise be able to reach.

The RIT brand helps open doors. Having RIT as an investor can be perceived as a stamp of approval for a manager and therefore the best of them are happy to provide capacity to RIT. In addition, the strength of the Rothschild family network and more recently Francesco Goedhuis' connections with the new generation of managers is invaluable. JRCM has close relationships with endowment funds and family offices with a similar long-term approach to investing as JRCM and such relationships provide fertile investment opportunities. RIT is often an early investor in funds and this helps secure favourable terms and build long-term relationships.

A four strong internal funds team helps select potential new managers. It looks for managers with strength of conviction that are targeting excess returns of 7%-10% per annum. As the net equity exposure in RIT is kept within moderate levels, this allows the team to invest in riskier sub-portfolios without compromising its overall risk budget.

Ideal sub portfolios exhibit low beta and high alpha

The ideal sub-portfolio is low beta and high alpha. The macro/risk overlay is used to limit RIT's participation in market drawdowns and to minimise the impact of tail events.

A good illustration of the process is provided by RIT's investment in the HCIF Offshore fund, a biotech portfolio with just a handful of positions. This is one of the largest positions in RIT's portfolio and this high ranking has been achieved through strong performance. Nevertheless, there have been times when RIT has been wary of the biotech market generally and has therefore shorted the NASDAQ Biotechnology Index while maintaining its exposure to HCIF Offshore.

Run the winners but drop the asset gatherers

JRCM does not operate a strict rebalancing policy within the portfolio. It trusts its underlying managers to return excess cash and would terminate the relationship with a manager that it felt was focused on asset gathering rather than investment performance.

Third cylinder - single stocks

The single stock portfolio is managed internally by a team of two and JRCM highlight that it has become extremely cost effective to manage this cylinder in house. The team also provides a useful function in challenging the stock selection decisions of the external managers.

Single stocks can be used to express themes identified in the asset allocation process. The sorts of stocks in the portfolio tend to be large/mega cap and high-quality businesses. These are also relatively 'safe', easy to understand companies. The team does not buy recovery plays, turnaround situations or heavily operationally or financially geared companies. Typically, it is targeting double digit annualised returns over three-year periods.

Fourth cylinder - uncorrelated assets, principally absolute return and credit strategies

This cylinder encompasses a diverse range of strategies aimed at exploiting potential sources of alpha uncorrelated with equity markets.

Absolute return and credit is the responsibility of a dedicated team within JRCM which also draws on the wider Rothschild network.

> Uncorrelated asset exposure is a key differentiator for RIT relative to investment company peers

The paucity of return available from government bonds and cash deposits stimulated the search for alternative sources of return. And the emphasis on the uncorrelated assets cylinder is much greater today than three/four years ago. This allocation seems to have worked well as a key differentiator for RIT relative to its investment company peer group.

The company tells us that there is a lot of alpha available within the credit long/short arena and they have exposure to distressed and event driven managers; emerging market debt and risk arbitrage.

These funds can have very high levels of liquidity, which could act as a drag on returns, but RIT does not see this as a problem as it leaves the underlying managers free to take advantage of opportunities as they arise.

Fifth cylinder - private investments

RIT invests in funds as well as direct private investments to gain access to unquoted companies. This part of the portfolio is the responsibility of Francesco Goedhuis who is supported by a team of three.

Funds are selected in a similar manner to quoted equity funds, focusing on managers with good track records and high conviction.

RIT also makes direct co-investments which are typically companies with strong growth potential. RIT is often approached directly with ideas for co-investments but the network of relationships that RIT has with likeminded investors is also a good source of opportunities.

RIT can act quickly and hold investments longer than most private equity funds

RIT aims to see potential investments early (ideally before anyone else does) and tends not to participate in contested/auction scenarios. It benefits from being able to act quickly and to hold investments for the long-term, whereas most private equity investment outside of RIT is done through fixed term funds.

When an attractive idea presents itself, RIT will seek to partner with an acknowledged team of experts in the field thereby benefitting from the detailed due diligence that these partners will perform.

RIT is looking for cash generative, relatively low risk investments that fall into one of two categories:

- '**Compounders**' – investments that offer the potential of annualised returns of about 15% and 10% returns in worst case scenarios. These deals are usually structured using preferred equity and penny warrants plus a regular cash coupon. RIT has a five-to-10-year time horizon when assessing these investments.
- '**Multipliers**' offer the potential of about 25% annualised base case returns without leverage. These investments will be free cash flow positive but possibly not sufficiently so to support structural cash coupons. RIT is looking for return of principal in a worst-case scenario and tends to have a three-to-15 year time horizon for these investments.

Sixth cylinder - currencies

Currency is treated as an asset class in its own right

RIT views currency in two ways. First as an asset class in its own right and hence a driver of return. And second as a risk management tool, particularly for a global portfolio at a time of currency fluctuations. This is another set of differentiators between RIT and its competition.

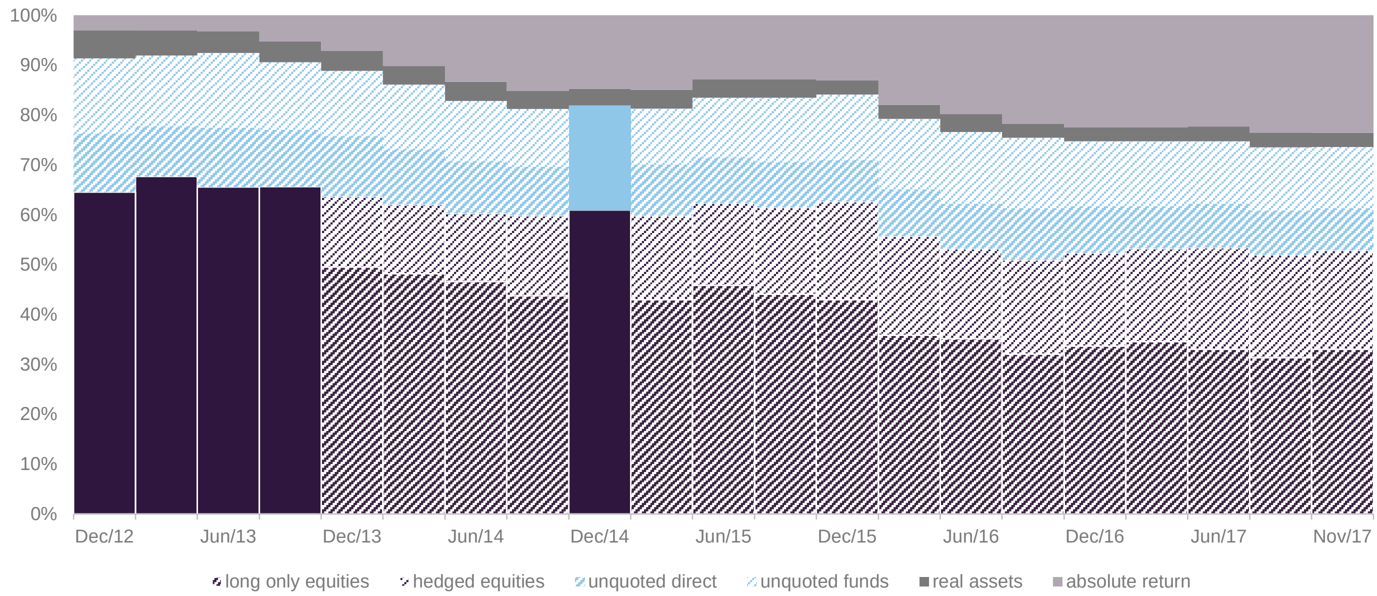
The Investment Committee keep the currency exposure under close review and aim to receive a perfect look-through of the underlying currency exposures within RIT's portfolio. Exposures are adjusted with forward contracts.

As an example of its view, RIT believes that a market sell-off would not necessarily result in a flight to the dollar in the current environment. It also notes that currency markets have decoupled, to some extent from interest rate differentials: this is particularly true of euro/dollar.

Asset allocation

The company publishes an analysis of the breakdown of RIT's portfolio by type of asset and we have shown the development of RIT's asset allocation over the past few years in Figure 3. The categorisation does not map perfectly to the six cylinders as the way that RIT presents this information has evolved over time, but the split of the portfolio by currency and geography is shown in Figures 5-7.

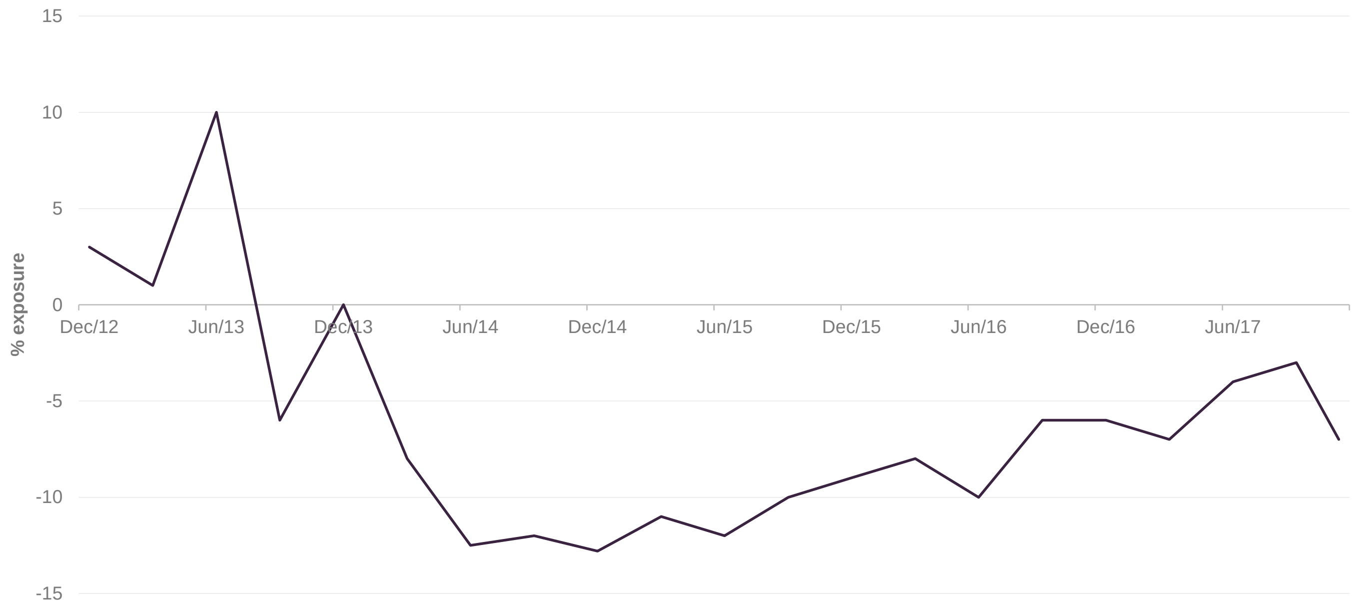
Figure 3: Asset allocation by asset type over the past five years



Source: RIT Capital Partners, Marten & Co. Note in some quarters the split of long only and hedged equities and of unquoted funds and direct is not available. Analysis excludes liquidity and related assets

Figure 3 is a simplification of the true picture as we have eliminated the liquidity and borrowing element of the portfolio. The development of this over recent years is shown in Figure 4. RIT had gearing of 14% at the end of November 2017 and its net liquidity was -7%.

Figure 4: RIT net liquidity over the past five years



Source: RIT Capital Partners, Marten & Co

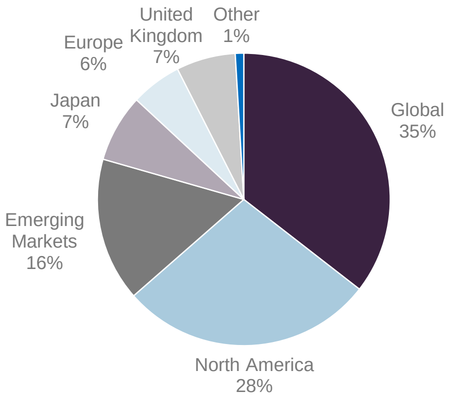
The real asset portfolio comprises property in St James's, London, principally Spencer House and nearby properties, plus gold bullion, futures and related equities (accessed currently through BlackRock's World Gold Fund). Spencer House is held on a long lease. In addition to providing some office accommodation, it is available for hire for events and is open to the public at certain times of the year.

The property portfolio provides a home for the RIT team but has also made a useful contribution to returns, increasing in value by approximately 40% over the past five years.

RIT believes that equity market valuations are looking stretched, particularly in the US. Reflecting this, they have been exercising caution and reducing exposure to long-only equities. At the end of November 2017, RIT's allocation to long only equities had fallen to 35%, down from 49% at 31 December 2013. Figure 3 illustrates the general shift in emphasis away from long only equities towards hedged equities, absolute return and credit strategies. RIT's average net exposure to quoted equities has fallen from 62% in 2012 to 47% in 2016.

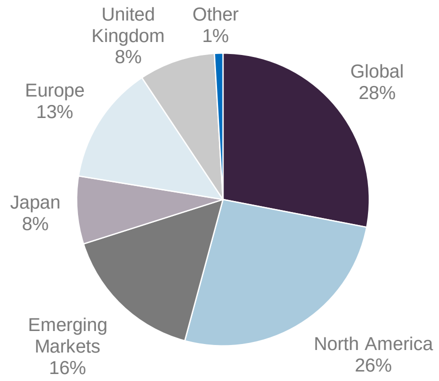
Figure 5 shows how RIT's portfolio was distributed by geography at the end of November 2017. These figures do not include the effect of derivatives on the portfolio. The allocations in Figure 6 are adjusted for this and show that, in particular, the weighting to Europe has been increased at the expense of the global category. Within the top-down cylinder the team decided to take a 5% position in Euro Stoxx futures, to take advantage of a recovering EU economy (it sees this as a relatively short-lived opportunity and hence did not make an allocation to a manager for this purpose).

Figure 5: Asset allocation by geography as at 30 November 2017



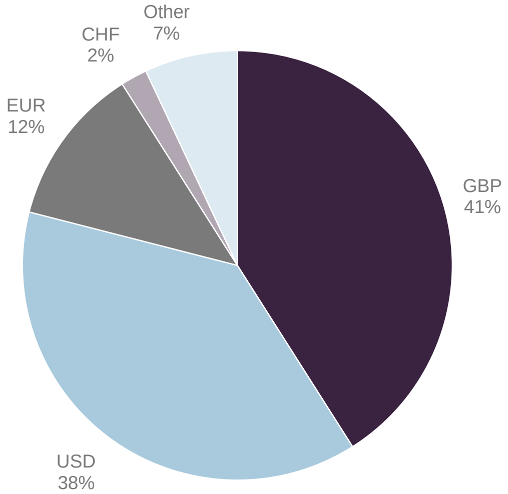
Source: RIT Capital Partners, Marten & Co

Figure 6: Asset allocation by geography adjusting for derivatives as at 30 November 2017



Source: RIT Capital Partners, Marten & Co

Figure 7: Asset allocation by currency as at 30 November 2017



Source: RIT Capital Partners, Marten & Co

Figure 7 shows RIT's asset allocation by currency. It is evident that there is a significant bias to sterling that is not present in the underlying asset allocation, consistent with RIT's largely British shareholder base.

Significant positions

Top down, macro overlay: in addition to the Euro Stoxx position discussed above, significant positions include a stake in a daily dealing open-ended fund to gain exposure to Indian large cap equities (RIT did not feel that a passive fund was appropriate in this market). To take advantage of a more structural theme in clean energy, RIT identified a manager, Lansdowne Partners, and asked it to pick 10-15 long term 'winners' in the sector.

Single stocks: consumer brands company, Reckitt Benckiser, is a good example of the type of stocks that RIT buys for the single stock portfolio. This part of the portfolio also includes co-investments that RIT has made in listed stocks. One of these is CSX, the US transportation company. A new chief executive, Hunter Harrison, was parachuted into the company early in 2017 to improve efficiency. His actions had a remarkably positive effect upon CSX's share price in the short time that he was in charge.

Long-only funds: the largest weighting within this part of the portfolio is to HCIF Offshore, the biotech fund discussed on page 7. The second largest at the end of June 2017 was a Japanese small/mid cap fund managed by Morant Wright. Although the Japanese economy remains lacklustre, corporate governance and economic reforms have rekindled interest in Japan's stock market. Skilled investment managers have become adept at identifying more entrepreneurial small-to-mid cap companies that are capable of outperforming by a significant margin.

Hedge funds: at the end of June 2017, RIT's largest equity hedge fund exposures were to the BlackRock European Hedge Fund and Martin Currie's Japan Fund - two well-known names. The next two largest positions, Soroban and Gaoling, may be less familiar, however. Soroban is an activist fund led by Eric W. Mandleblatt (ex-Goldman Sachs and TPG-Axon) with significant positions in companies such as beverages giant, Anheuser Busch. Gaoling is a hedge fund advised by Hillhouse Capital Group, an asset management firm established by Zhang Lei (ex-Yale Endowment) that was an early investor in companies such as Tencent and JD.com.

Private investments (direct): Compounders: Acorn, which RIT acquired alongside BDT Capital, is a coffee company comprising DE Master Blenders, Keurig Green Mountain and Mondelez's former coffee business. RIT holds preferred equity and penny warrants in the company and receives a cash coupon of 6% per annum, which JRCM says is well covered by cash flow. The target, base case, annualised return on this investment is 13%-17%.

Private investments (direct): Multipliers: RIT co-invested in the UK's second largest alarm business, CSL. RIT did the deal alongside ICONIQ Capital (a family office that acts for Mark Zuckerberg among others) and Norland Partners.

Although RIT has looked at many potential new investments recently, it has been circumspect owing to high valuations. The converse of this is that it has been a good market for exits. In 2016, RIT realised its position in Williams & Glyn (the English arm of Royal Bank of Scotland).

Private investments (funds): Thrive Capital, the largest position in the private investments fund portfolio, is a venture capital manager known for being an early investor in Instagram. Augmentum, the second largest, has RIT as its sole investor. It is looking for opportunities in UK fintech. The third largest, 3G Special Situations, is co-owner, with Berkshire Hathaway, of consumer staples company, Kraft Heinz.

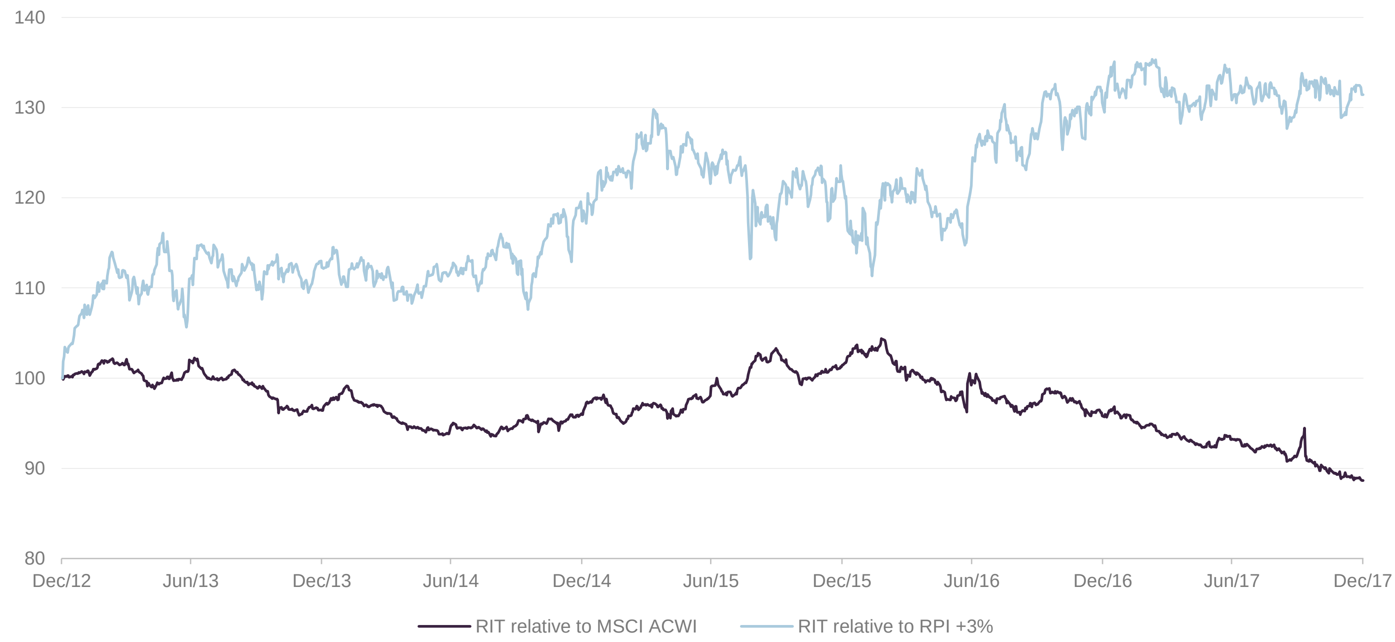
RIT is keen to identify the right type of exposure to early stage technology companies. A recent example of this is an investment into tech company, Social Capital. The company is based in Palo Alto, California, and led by Chamath Palihapitiya (ex Facebook and known for being an early investor in companies such as Slack). Social Capital is a highly innovative business which has distinctive benefits from a data analysis engine allowing it to assess the potential of fast-growing companies.

Absolute return and credit: The largest exposure is to global macro fund, Eisler Capital. Ed Eisler is ex Goldman Sachs (co-head of its securities division). Other notable holdings include Attestor Value Fund (a distressed credit fund with positions in investments such as the debt of bankrupt Spanish toll roads and bonds issued by Novo Banco, the bank created after the collapse of Portugal's Banco Espirito Santo) and Elliot International.

Performance

Figure 8 shows how RIT's NAV has performed relative to both RPI plus 3% per annum and the MSCI ACWI over the past five years. RIT has done a good job in beating the inflation-linked target, by more than 30% over the five-year period. However, due to its cautious stance and low net public equity exposure, RIT has not kept pace with the fast-rising global equity index. This reflects RIT's focus on capital preservation over a period where they have been increasingly cautious of equity market valuations When equity markets pull back, their caution should be rewarded.

Figure 8: RIT NAV total return relative to MSCI ACWI* and RPI +3% over five years



Source: Morningstar, Bloomberg, Marten & Co. Note: MSCI ACWI 50% in sterling and 50% in local currencies

Over the long term RIT has been one of the best performing investment companies listed in the UK as is evident in Figure 9.

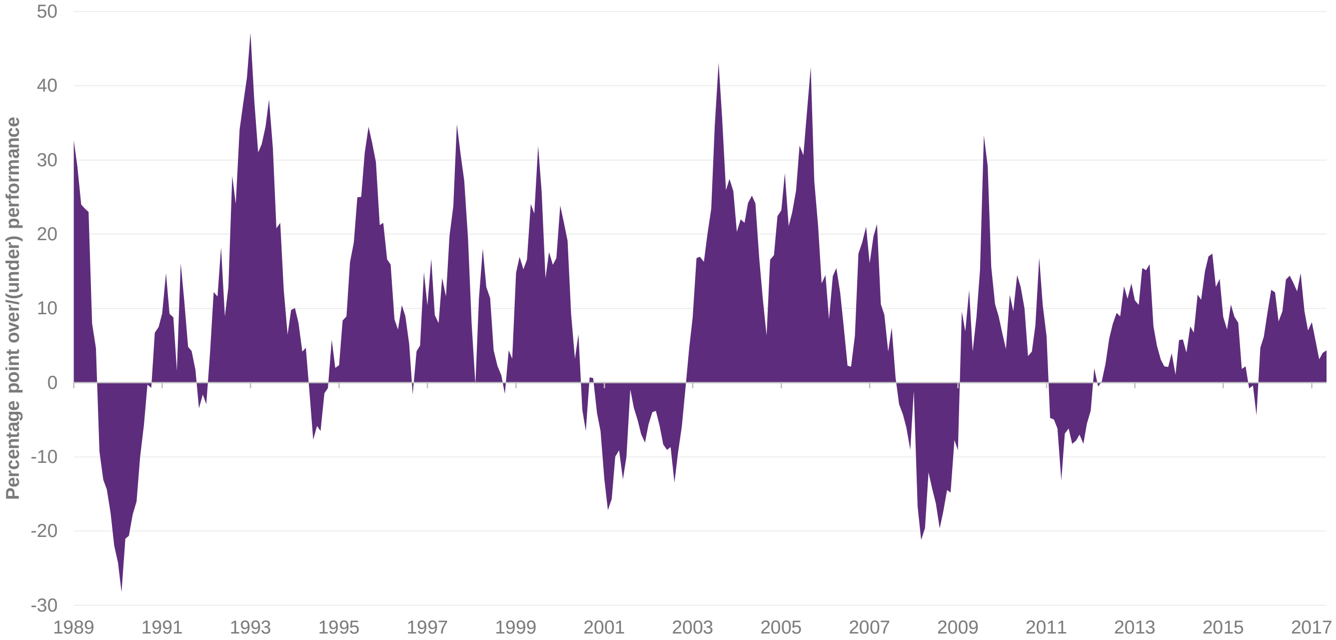
Figure 9: 10 best performing UK listed investment companies since 1 August 1988 in share price total return terms

Fund	Performance (% annualised)	Rank	Trust	Performance (% annualised)	Rank
Rights & Issues	+17.7	1	BlackRock Smaller Cos.	+12.8	6
ICG Enterprise	+13.7	2	Finsbury Growth & Income	+12.7	7
Electra Private Equity	+13.3	3	RIT Capital Partners	+12.5	8
European Assets	+13.3	4	Invesco Perpetual UK Smaller	+12.3	9
Scottish Mortgage	+13.2	5	Henderson European Focus	+12.3	10

Source: Morningstar, Marten & Co

Figure 10 shows how well RIT has done in beating its inflation-linked target since launch. The chart shows RIT's NAV returns relative to RPI plus 3% per annum over rolling 12-month periods. RIT's most extensive period of underperformance against this benchmark was in the early 2000s, following the collapse of the tech boom.

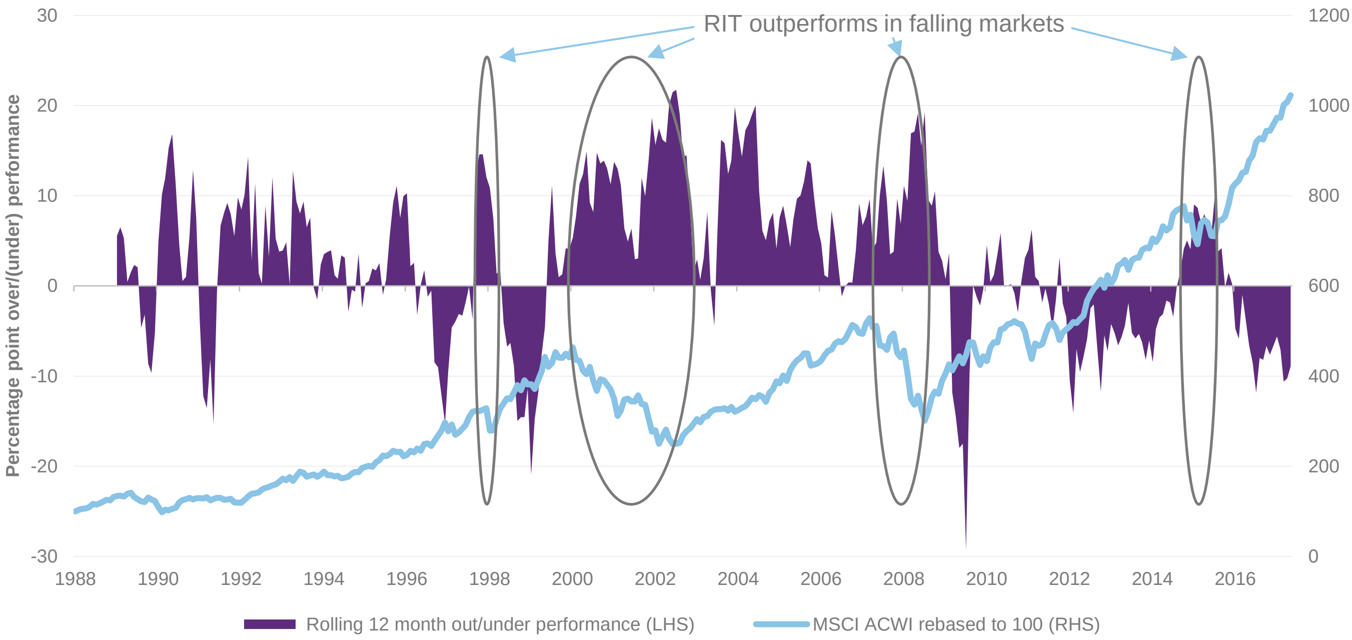
Figure 10: RIT NAV total return 12 month rolling over/(under) performance versus RPI +3%



Source: Morningstar, Bloomberg, Marten & Co

Figure 11 shows the equivalent picture for RIT's NAV returns relative to the MSCI ACWI. Here, perhaps, the most noticeable period is performance against markets since the end of the credit boom. This reflects the company's caution in the face of unprecedented economic stimulus from central banks and governments and ever rising equity markets. However, RIT shareholders have been rewarded by comparison to many competing funds who have a focus on preserving investors' capital. RIT has participated meaningfully in rising markets, notwithstanding its low market exposure, delivering, equity type returns with less equity risk.

Figure 11: RIT NAV total return 12 month rolling over/(under) performance versus MSCI ACWI*



Source: Morningstar, Marten & Co. Note * MSCI ACWI 50% in sterling and 50% in local currencies, gross returns until 31/1/2001 and net returns thereafter.

As an example of the way that that different cylinders contribute at different times, the managers' performance attribution (see Figure 12) shows that, in 2014 and 2015, it was quoted equities that made the largest contribution to performance; in 2016 it was currency.

Figure 12: Attribution of returns by asset class

Heading	2014	2015	2016	2017 (H1)
Quoted equities	4.7	5.8	0.4	5.0
Private investments	3.1	0.7	1.7	0.9
Absolute return and credit	1.3	0.2	2.4	0.8
Real assets	0.1	(0.5)	0.0	0.5
Government bonds and rates	(1.2)	0.2	0.1	0.1
Currency	3.0	2.7	9.6	(2.5)
Liquidity, borrowings and other	(1.5)	(1.0)	(2.1)	(0.8)
Total	**9.5**	**8.1**	**12.1**	**4.0**

Source: RIT Capital Partners

Peer group

Up-to-date information on RIT and its peer group is available on www.quoteddata.com

RIT sits within the AIC's Flexible Investment sector. This represents a group of funds that have the freedom to invest across a range of asset classes. Coincidentally, many of these funds also incorporate an absolute return focus into their investment approach. We have selected a subset of funds from the AIC sector, excluding the smallest (sub £50m market cap) funds and Tetragon, which has a quite different investment approach to many of the other funds in the sector.

Figure 13: Flexible investment peer group, figures as at 19 January 2018

Heading	Market cap (£m)	Premium/ (discount) %	Yield %	Ongoing charges ratio %
RIT	3,048	6.9	1.6	0.68
Aberdeen Diversified Inc. & Growth	407	(2.3)	4.7	0.62
Capital Gearing	214	1.2	0.5	0.86
Henderson Alternative Strategies	115	(12.3)	1.6	1.04
Miton Global Opportunities	80	3.3	0.0	1.34
New Star Investment Trust	82	(25.9)	0.7	0.90
Personal Assets	885	1.3	1.4	0.95
Ruffer Investment Company	409	2.7	0.7	1.16
Seneca Global Income & Growth	81	1.7	3.5	1.59

Source: Morningstar, Marten & Co

As you can see from Figure 13, RIT is by far the largest (and consequently the most liquid) fund in our peer group. It is also the most highly rated, sitting on a premium of 6.9% (based on Morningstar's latest NAV estimate) against an average discount of 3.8% for our peer group. RIT does not put any emphasis on income generation within its investment process and this accounts for its relatively low yield. RIT has one of the lowest ongoing charges ratios of the peer group. Personal Assets and Ruffer are the only two funds that do not have meaningful allocations to externally managed funds within this list.

Figure 14: Flexible Investment peer group NAV total returns for periods ending 31 December 2017

Heading	3 months	6 months	1 year	3 years	5 years	10 years*
RIT	2.0	2.9	7.6	30.4	69.3	85.1
Aberdeen Diversified Inc. & Growth	1.5	2.0	9.1	n/a	n/a	n/a
Capital Gearing	1.8	2.0	5.7	24.3	32.3	102.0
Henderson Alternative Strategies	2.1	3.9	8.1	27.4	28.5	-15.4
Miton Global Opportunities	7.1	10.8	26.7	62.2	94.4	88.1
New Star Investment Trust	3.3	4.1	11.3	42.1	53.3	4.0
Personal Assets	1.9	1.3	6.1	23.0	29.8	87.4
Ruffer Investment Company	2.2	1.4	2.6	13.1	26.1	120.7
Seneca Global Income & Growth	1.1	4.8	14.4	38.8	67.3	74.0

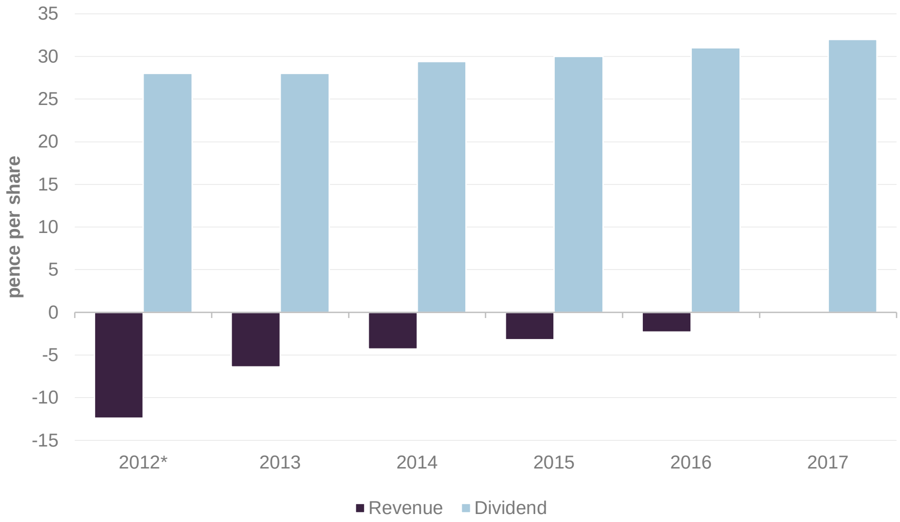
Source: Morningstar, Marten & Co. Note: 10-year figures are ex-par NAVs, all other figures are cum fair NAVs.

Comparing the performance of the funds, RIT's NAV returns over the past 10 years reflect the challenges which faced the company prior to the management changes and are about middle of the pack for our peer group. Since the establishment of the new team, over five years, it is second only to Miton Global Opportunities. Over most shorter time periods RIT is well ahead of funds with high exposure to cash, short-term fixed interest and gold (such as Capital Gearing, Personal Assets and Ruffer) but understandably lags funds with high exposure to equity markets such as Miton Global Opportunities and New Star Investment Trust.

Dividend

In February 2017, the board announced that a dividend of 32p would be paid in two equal instalments of 16p (in April and October) for the year ended 31 December 2017. The statement also said that "*We intend to maintain or increase this level in the years ahead, subject to unforeseen circumstances*." Figure 15 shows how the dividend has developed over the past five years. As is clear from the chart, RIT has been paying most of its dividend from distributable reserves rather than net revenues. It is likely that this state of affairs will continue. However, the extent of these distributions from capital is not so great as to give us concerns over their sustainability.

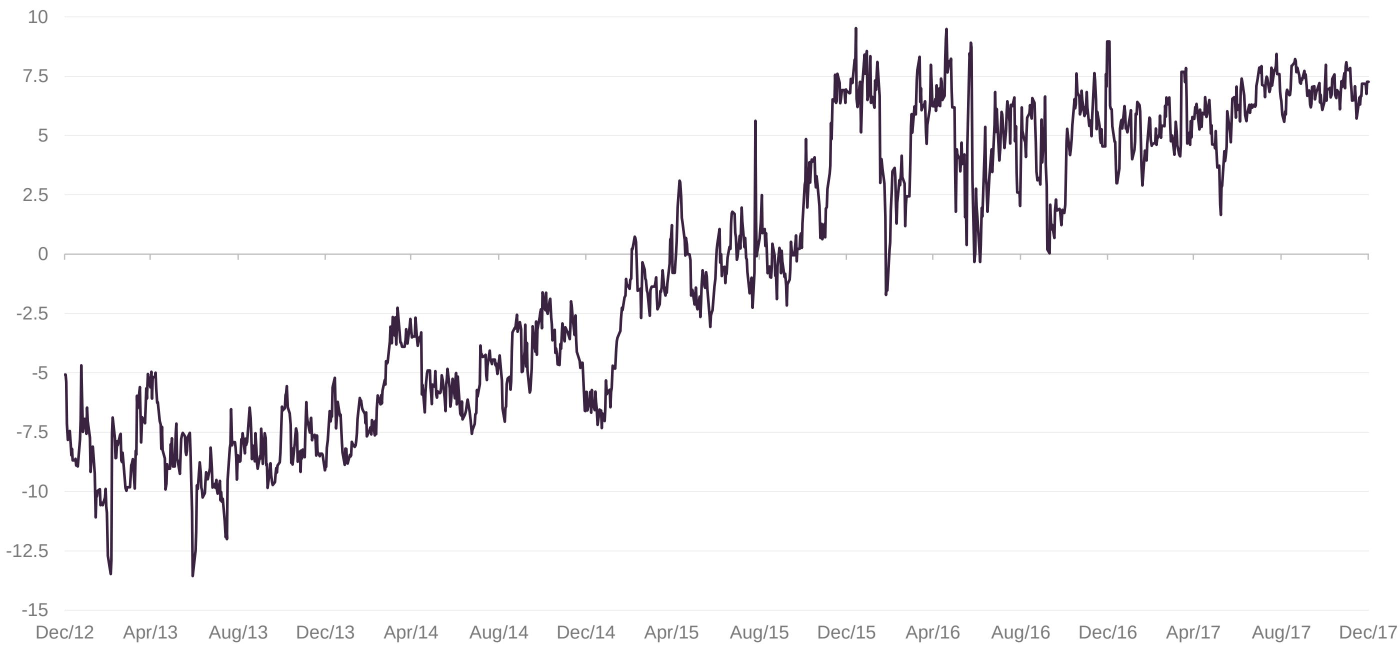
Figure 15: Revenue earnings and dividends (pence per share) over five years



Source: RIT Capital Partners, * 2012 was a nine-month period after change of year end.

Premium/Discount

Figure 16: RIT share price discount to NAV in percentage terms over five years to end December 2017



Source: Morningstar, Marten & Co

RIT's rating has been improving steadily in recent years, moving within a range of 13.6% discount to a 9.5% premium and averaging a discount of 0.7% over the five-year period. The premium appears to have stabilised over the past six months, moving within a narrow range around the 6% level. The premium may reflect the demand for funds with an absolute return approach, given current market conditions. It may also be attributable, in part, to RIT's impressive long-term performance record and the stability of the Executive Committee following some unsettled periods with high profile departures.

RIT has powers to repurchase its shares which are renewed each year at the AGM. RIT also has powers to issue shares – up to a third of its issued share capital outside of a rights issue and a further third in a rights issue. In practice, however, it only has permission to issue 10% without pre-emption (in-line with most other trusts). RIT has not issued shares since July 2012, when it issued 388,179 shares in conjunction with the acquisition of Corsair Capital.

Fees and costs

RIT is self-managed and has its own team of fund managers, analysts and support staff

RIT comprises a series of wholly owned subsidiaries, the largest of which is JRCM, its 100% owned operating subsidiary. JRCM, has its own team of fund managers, analysts and support staff.

The main element of total group operating expenses is staff costs (73% of the total in 2016). For the year ended 31 December 2016, RIT's total group operating expenses were £28.9m, a drop of 4.6% on the equivalent 2015 figure. For the first half of 2017, operating expenses were £13.6m, 7.9% up on the equivalent period in 2016. These are consolidated numbers and include all the groups various subsidiaries.

Ongoing charges ratio 0.68% for 2016

Adjusting the 2016 operating expenses to calculate an ongoing charges ratio based on AIC methodology (principally, stripping out the expenses attributable to GVQ and the performance-related element of JRCM's overheads) gives an ongoing charges ratio for 2016 of 0.68%, down from 0.74% on 2015. You can see how this compares to its investment company peer group on pages 15 and 16.

RIT invests in a number of funds and other investments that are managed externally, and these managers charge for their services (typically 1% to 2% base fees and in some cases a performance fee which may take the form of carried interest for private equity investments, for example).

Executive directors

The directors' remuneration report gives details of the compensation scheme for the executive directors (of which Lord Rothschild is the only one). In addition to their base salary, executive directors (including the chairman) are provided with a pension contribution of up to 20% of base salary; the use of a company car; private medical; as well as other insurances.

The executive directors (only Lord Rothschild at the moment) participate in a bonus pool, the size of which is calculated as:

- 3% of the annual NAV total return outperformance of the fund over the MSCI AC World Index.
- 3% of the portion of annual growth in NAV on a total return basis above a hurdle of RPI plus three percentage points, subject to a three-year rolling high watermark.
- In addition, shareholders have approved a qualitative bonus pool which rewards individual contribution to corporate achievement not directly linked to NAV growth.

The size of the pool is capped at 0.75% of NAV for a year where the NAV has risen or 0.25% of NAV when the NAV has fallen. Where an individual's bonus is larger than £100,000, 60% of the excess is paid in RIT shares that vest over three years.

A long-term incentive plan (LTIP) was approved by shareholders in July 2008 and renewed in April 2017. The terms of the LTIP must be reviewed by shareholders every 10 years. Participants, which include the executive chairman, are awarded 'share appreciation rights' each year (the valuation of which is capped typically at 4x base salary). For the rights to vest, the participants must still be in employment three years after the date of the award and a performance condition must have been met. Currently the performance condition is that total shareholder return outperforms RPI plus three percentage points per annum over the three-year period.

Both the bonus and the LTIP are subject to clawback in the event that there has been a material miss-statement of RIT's results or if the employee is dismissed for gross misconduct.

For the year ended 31 December 2016, the chairman's total remuneration was £1.7m. The overwhelming majority of that was a performance related bonuses which was based on the growth in the NAV and the sustained increase in the share price. The Chairman's bonus was settled in shares.

Capital structure and life

RIT has 155,351,431 ordinary shares in issue and no other classes of share capital. RIT's powers to repurchase and issue shares are discussed on page 18. An employee benefit trust has been established to hedge future exercises of share appreciation rights issued under incentive schemes (see above). It has purchased existing shares in the open market.

RIT's principal operating subsidiaries are JRCM and Spencer House Limited, which are more fully described on page 5. RIT holds 100% of each of these. A full list of subsidiaries is available in RIT's report and accounts.

> £275m RCF plus £151m of longer dated fixed rate loan notes

Short-term gearing is provided via two revolving credit facilities, one of £150m with National Australia Bank and the other of £125m from Commonwealth Bank of Australia. These can be drawn down in a range of currencies and carry interest at rates linked to 3-month LIBOR or equivalent in the relevant currency. At the end of December 2016, the blended interest rate on these borrowings was 1.78%. In addition, on 1 June 2015, RIT issued £151m nominal of fixed rate loan notes with tenors of 10 to 20 years and coupons between 3% and 3.56%. The blended interest rate on these notes is 3.45% and the weighted average tenor is 13.2 years.

The company's accounting year runs to the end of December and typically AGMs are held in April. In keeping with its investment objective, RIT does not have a fixed life and does not hold regular continuation votes.

The executive team

Francesco Goedhuis is the chief executive officer of JRCM. He joined the company as the principal in the chairman's office in 2010. Previously, Francesco was in New York working for the Economics Nobel Laureate, Robert Merton, and the former vice chairman of J.P. Morgan, Roberto Mendoza, at IFL, commercialising financial academic theory on both the buy and sell sides.

Ron Tabbouche is the chief investment officer. He joined the company in 2012 having previously been the head of investments for managed portfolios at GAM. At the age of 26, he joined GAM's investment committee, working with Gilbert de Botton, its co-founder. Subsequently, he led the overall investment strategy of multi-billion-dollar funds across a broad range of asset classes.

Andrew Jones is the chief financial officer and chief risk officer. Prior to joining the company in 2008, he spent three years in venture capital and four years at Nomura, advising on its private equity investments as well as risk, global corporate development and strategy. He qualified as a chartered accountant with Deloitte LLP where he specialised in valuation advice.

Jonathan Kestenbaum is the chief operating officer. Until 2011 he was chief executive of Five Arrows Limited and was previously chief executive of NESTA (the National Endowment for Science, Technology and the Arts). Prior to that he was chief of staff to the chairman of Apax Partners, Sir Ronald Cohen. In January 2011, Jonathan was appointed to the House of Lords and became Lord Kestenbaum of Foxcote.

Board

The eight directors of the company are listed in Figure 17 below. Mike Wilson, who was a joint founder of J. Rothschild Assurance (now St. James's Place), stepped down as a director on 19 October 2017 and Jean Laurent-Bellue retired as a director on 22 December 2017.

Lord Rothschild OM GBE

Jacob Rothschild has chaired RIT since its flotation in 1988. He is also chairman of the nominations committee, as well as chairman of JRCM and of its investment committee. Having left NM Rothschild & Sons in 1980, Jacob developed RIT's predecessor companies, co-founding companies in money management, insurance and investment, including Global Asset Management and St James's Place Capital Plc. He served as Deputy Chairman of BSkyB Plc for five years, to 2008. He is Chairman of Windmill Hill Asset Management Limited (WHAM), which manages the philanthropic foundations connected with his family, as well as chairing his own family's office and the Rothschild Foundation. Jacob is also the Honorary Vice Chairman of Edmond de Rothschild Group S.A.

In addition to his career in finance, Jacob has been involved in public service including the arts, heritage and philanthropy, having chaired The National Gallery, The National Heritage Memorial Fund and The Heritage Lottery Fund.

Michael Marks CBE

Michael Marks is chairman of MR Capital Consultants Limited and was chairman of NewSmith Capital Partners LLP, which he founded in 2003. He was formerly co-head of the global equities business of Merrill Lynch, which he joined in 1995 and where he subsequently held positions as chief operating officer of Merrill Lynch Europe, Middle East and Africa. He was subsequently named executive chairman. He was also executive vice president of Merrill Lynch & Co., Inc.

Michael began his career at Smith Bros. in 1958, where he became a director in 1975 and chief executive of Smith New Court in 1987. He was a non-executive director of Old Mutual Plc from February 2004 to May 2007 and a non-executive director of London Stock Exchange Plc until 2004.

John Cornish

John Cornish is also chairman of the trustees of the RITCP Pension and Life Assurance Scheme. He is a chartered accountant and was formerly a partner at Deloitte LLP where he led the firm's services to the investment trust industry. Subsequently, John served as chairman of Framlington Innovative Growth Trust Plc and as a director of a number of other investment trust companies.

Amy Stirling

Amy Stirling is a chartered accountant and is chief financial officer of the Virgin Group. She also serves as a director and chair of the audit committee of Pets at Home Group Plc. Amy served as the chief financial officer of TalkTalk Telecom Group Plc until 2013, having been with the business since its start up as part of the Carphone Warehouse Group, which she joined in 2000.

Mike Power

Mike Power is a fellow of the Institute of Chartered Accountants in England and Wales and professor of accounting at the London School of Economics and Political Science, where he is a governor and has written extensively on risk and corporate governance issues. He was a non-executive director of St. James's Place Plc from 2005 to 2013 where he chaired the risk committee and was a member of the audit committee. He remains on the board of St James's Place International Plc, which he joined in September 2012 and was appointed as its chairman in 2014.

Mike has held a number of other advisory positions, including membership of the financial reporting lab advisory committee at the Financial Reporting Council, and the technical development committee of the Institute of Risk Management. He also holds honorary doctorates from the Universities of Uppsala, Sweden; St Gallen, Switzerland; and Turku, Finland. In 2016 he was elected as a fellow of the British Academy.

The Duke of Wellington

The Duke of Wellington (formerly Lord Douro) has broad experience in banking and finance, having served as chairman of Sun Life and Provincial Holdings from 1995 to 2000 and of the Framlington Group from 1994 to 2005. He is currently a director of Compagnie Financière Richemont. He served on the board of Sanofi until May 2014 and was until 2011 a director of Pernod Ricard and Abengoa Bio-Energia.

The Duke of Wellington is chairman of Richemont Holdings (UK) Limited. He is a member of the House of Lords and was a member of the European Parliament from 1979 to 1989. From 2007 to 2016 he was chairman of King's College London and since 2014 he has been a governor of Wellington College.

Hannah Rothschild

Hannah Rothschild has been involved with media for the past 20 years. An award-winning documentary film maker, she also writes articles, screenplays and books. In addition, she is a non-executive director of WHAM, a director of Five Arrows Limited and serves as a trustee of the Rothschild Foundation.

As well as her career in media, she has been involved in public service, including acting as a trustee of the National Gallery and of the Tate. She became chair of the board of trustees of the National Gallery in August 2015.

Philip Costeletos

Mr Costeletos has over 25 years' private investing experience spanning several investment cycles and investment types, including start-ups, growth capital and buyouts, and geographies, including emerging markets.

Philippe was formerly Chairman of International for Colony Northstar, a leading global real estate and investment management firm. Previously, he was Head of TPG Capital in Europe and served as a member of TPG's Global Management and Investment Committees, being responsible for investment strategy during a period which included investments in TIM Hellas, where he was chairman, and Debenhams Plc, where he was a member of the board.

Fee information

The independent directors' fees were last revised with effect from 1 April 2016. Directors receive a base fee of £30,000. In addition, the senior independent director receives £7,500, members of the nominations committee receive £4,000, the conflicts committee £3000, the audit and risk committee £6,000, the valuation committee £6,000 and the remuneration committee £4,000. The chairman of the audit and risk committee receives £10,000 and the chairmen of the other committees receive £7,500. The company's articles restrict total base fees payable to £400,000. The only additional benefits that the directors receive are to cover the cost of travel.

Figure 17: The board

Director	Position	Appointed	Length of service (years)	Annual fee (GBP)*	Shareholding
Lord Rothschild OM GBE	Executive chairman[1]	August 1988	29.4	250,000 (see pages 18 & 19)	9,904,096 (a) 18,462,036 (b)
Michael Marks CBE	Senior independent director[1,2,3]	September 2004	13.3	50,500	10,000 (a)
John Cornish	Chairman of audit committee[2,3,4,5]	January 2008	10.0	54,500	8,281 (a)
Amy Stirling	Non-executive director[3,4]	February 2015	2.9	42,000	2,058 (a)
Mike Power	Non-executive director[3,4]	January 2014	4.0	42,000	518 (a)
The Duke of Wellington	Non-executive director[1,2,5]	July 2010	7.5	49,000	25,000 (a) 89,000 (b)
Hannah Rothschild	Non-executive director	August 2013	4.4	30,000	14,263,695 (a) 14,081,001 (b)
Philip Costeletos	Non-executive director[4]	July 2017	0.4	36,000	Nil

Source: Marten & Co. Note: 1 denotes member of the Nominations committee, 2 Conflicts committee, 3 Audit and risk committee, 4 Valuation committee, 5 Remuneration committee. * based on current committee membership. (a) beneficial holding, (b) non-beneficial holding. The family has been adding modestly to its interest in RIT over the course of 2017.

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