Ruffer Investment Company Limited

An alternative to alternative asset management

SEPTEMBER 2010

ISSUE 65

Share price as at 30 Sep 2010

198.50p

NAV as at 30 Sep 2010

Net Asset Value (per share)

184.10p

Premium/(discount) to NAV

As at 30 Sep 2010

7.8%

Launch price as at 8 Jul 2004

100.00p

RIC A Class since inception

Total Return (NAV)[1]

106.3%

£ Statistics since inception

Standard deviation[2]	2.13%
Maximum drawdown[3]	-7.36%

[1]Including 13p of dividends

[2]Monthly data (Total Return NAV)

[3]Monthly data (Total Return NAV)

Source: Ruffer LLP

Percentage growth in total return NAV

30 Sep 09 – 30 Sep 10	12.3%
30 Sep 08 – 30 Sep 09	30.3%
30 Sep 07 – 30 Sep 08	10.5%
30 Sep 06 – 30 Sep 07	3.5%
30 Sep 05 – 30 Sep 06	2.0%

Source: Ruffer LLP

Six monthly return history

Date	NAV (p)	TR NAV * (p)	% Total return
30 Jun 10	182.6	198.9	8.1
31 Dec 09	170.3	184.0	12.6
30 Jun 09	152.6	163.3	2.2
31 Dec 08	150.9	159.8	16.0
30 Jun 08	131.3	137.7	6.7
31 Dec 07	124.2	129.0	7.5
30 Jun 07	116.7	120.0	-1.4
31 Dec 06	119.6	121.7	0.6
30 Jun 06	119.4	121.0	-0.5
30 Dec 05	120.5	121.6	7.9
30 Jun 05	112.2	112.7	5.6
31 Dec 04	106.7	106.7	8.9

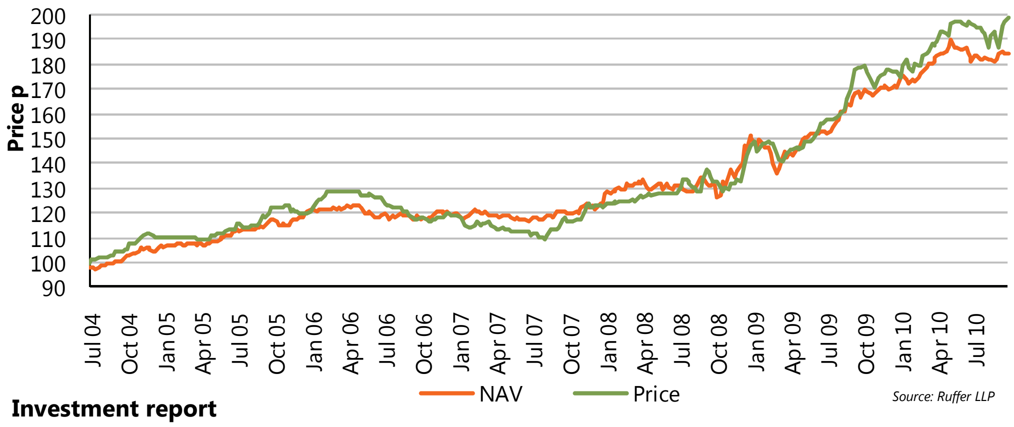
*includes re-invested dividends *Source: Ruffer LLP*

Dividends ex date: 0.5p 30 Mar 05, 30 Sep 05, 22 Mar 06 and 27 Sep 06, 1.25p 21 Mar 07, 26 Sep 07, 5 Mar 08 and 1 Oct 08, 1.5p 4 Mar 09, 30 Sep 09, 3 Mar 10 and 1 Sept 10

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 in internationally listed or quoted equities or equity related securities (including convertibles) or bonds which are issued by corporate issuers, supra-nationals or government organisations.

RIC performance



Source: Ruffer LLP

Investment report

The net asset value of the company currently stands at 184.10p, a rise of 2.3% (after allowing for the dividend) during September. The share price rose 3.2% and the premium over NAV was 7.8%.

The market capitalisation of RIC is now £274.4m following the successful private placement of shares, in which the maximum number offered were taken up by investors, both old and new. The premium over net asset value suggests that the issue has been well digested.

There was a fair amount of activity during the month to invest the money which arrived on 22 September. Accordingly, the purchases were largely in the nature of further tranches of existing holdings. While the medium term effect of the date of purchase is almost totally irrelevant, it has had a small effect in the short term, putting a very mild brake on performance. The sharp rise in index-linked stocks subsequent to purchase was slightly more than offset by the movement of the equities and the US dollar in the last 10 days or so.

It is striking that a sharp rally in equity markets coincided with somewhat weak economic news, and the reason for this seemingly perverse response is to be found in the reaction of the Federal Reserve to the darkening outlook. There is now a presumption of further quantitative easing, and investors have noted that the money thereby created finds a more natural home in the purchase of investments, than loans to industry. There is nothing perverse about such a reaction, but it makes us more certain that our roadmap will hold: a series of deflationary shocks in the economy, each leading to the same resultant policy of Central Bank easing. Eventually ordinary citizens will lose confidence in their respective currencies, a dismay which will cause them to spend it, and the increased velocity of circulation will bring about the very inflation that has been feared.

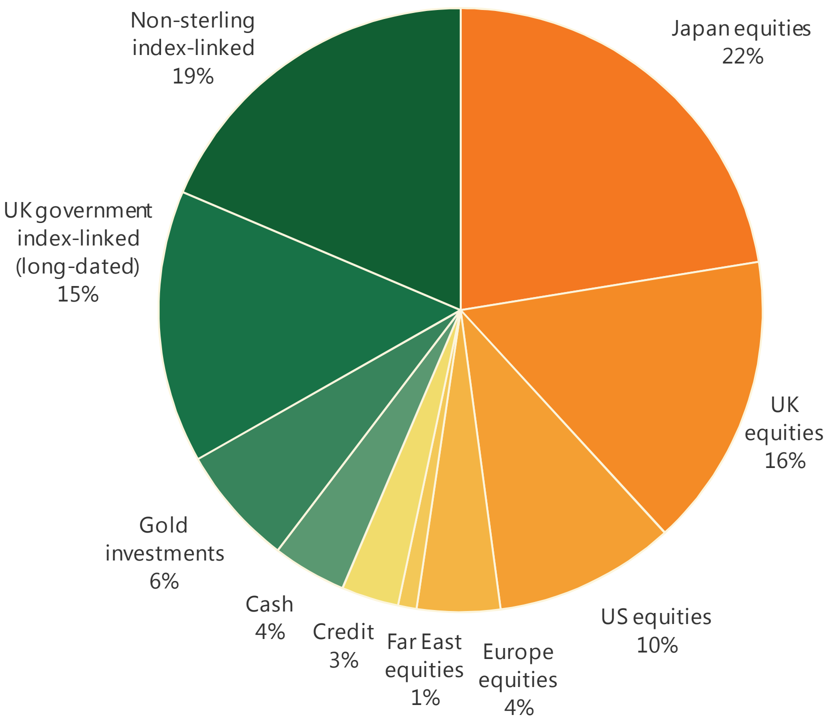
One factor, not exactly a new one, seems worth highlighting at the moment. It is no longer possible to keep one's money safe. The 'riskless' option on money is an instant access account at a sound banking institution. Leaving aside whether appearances are deceptive as to the soundness of the institution (not nearly such a worry as when nobody thought about it three years ago), it is difficult to get any return at all in the best institutions, and even the Bank of Ireland offers just 2.1%. With inflation currently running at about 4% in the United Kingdom, this is death by slow drowning.

The effect of this is to distort those investments with a small amount of risk. Savers who are used to receiving a return of, say, 5% in a deposit account are now prepared to accept a modicum of risk in order to hold an investment with a similar return. Those who did it early have discovered that risk has a brighter side, known as reward. Government bonds and first class corporate bonds have given not only the requisite running yield, but have made a decent capital gain as well. This creates very dangerous circumstances, because investors are inclined to look only at the undoubted security of the asset, and don't look at the egregious mispricing. Thus German three year bonds on a yield of less than 1% and twenty five year bonds there yielding less than 3% may be secure, but they are not safe.

This presents a conundrum for the managers of Ruffer Investment Company, who aim to produce a satisfactory return without taking reckless risks. Index-linked gilts, which represent perhaps the only other 'riskless' asset (assuming that the Government does not default, a reasonable assumption, take it from me) now have a negative real yield at the short end of the yield curve, and even the index-linked 1.25% 2017, which does not mature for over seven years, gives a negative return. Since we believe that this distortion is going to get worse rather than better, we take a rather perverse comfort from these seemingly extreme overvaluations in the inflation-linked market. It shows that this asset class prices blindly off the distortion manifest in the cash market, and does not attempt to second guess the opportunity by balking at the absurdity of buying a stock which will not get you all your money back in real terms. The 2055s are on their way to a minus 5% real yield, and a ten-bagger! Rest assured that we will have mistakenly sold them long before they get there. You read it here first.

We remain fascinatingly infatuated with our Japanese stocks, which failed to make any money during September – indeed, rather the reverse. Japan has a palpable sense of crisis, and we expect to see some imaginative moves to help the consumer, beyond the anodyne currency interventions which have hitherto been the best that the Bank of Japan can do. This is probably the only part of the portfolio which is compelling in price terms, but probably no better than a five-bagger.

Portfolio structure as at 30 Sep 2010



Source: Ruffer LLP

Ten largest holdings as at 30 Sep 2010

Stock	% of fund
1.25% Treasury index-linked 2017	6.3
US Treasury 2.375% TIPS 2025	5.8
1.25% Treasury index-linked 2055	5.6
US Treasury 1.625% TIPS 2018	5.1
US Treasury 1.625% TIPS 2015	5.1
CF Ruffer Baker Steel Gold Fund	3.9
Vodafone	3.6
T&D Holdings	3.3
CF Ruffer Japanese Fund	3.2
Ruffer Illiquid Strategies Fund 2009 Ltd	3.1

Five largest equity holdings* as at 30 Sep 2010

Stock	% of fund
Vodafone	3.6
T&D Holdings	3.3
Kraft Foods	2.9
BT	2.3
Nippon Telegraph & Telephone	2.3

**Excludes holdings in pooled funds* *Source: Ruffer LLP*

NAV valuation point	Weekly – Friday midnight Last business day of the month
NAV	£229.46m (30 Sep 2010)
Shares in issue	124,638,416
Market capitalisation	£247.41m (30 Sep 2010)
No. of holdings	54 equities, 7 bonds (30 Sep 2010)
Share price	Published in the Financial Times
Market makers	ABN AMRO Cazenove Cenkos Securities Numis Securities Winterflood Securities

JONATHAN RUFFER
Chief Executive
Trained as a stockbroker and barrister before moving into private client investment management in 1980, with Dunbar Fund Managers. Formerly Chief Investment Officer of Rathbone Bros plc, in 2001 became an independent non-executive director of Electric and General Investment Trust PLC. He established Ruffer Investment Management Ltd in 1994, which transferred its investment business to Ruffer LLP in 2004.

STEVE RUSSELL
Investment Director
Started as a research analyst at SLC Asset Management in 1987, where he became Head of Equities in charge of £5bn of equity funds. In 1999 moved to HSBC Investment Bank as Head of UK and European Equity Strategy, before joining Ruffer in September 2003. Became a non-executive director of JP Morgan Fleming Continental Investment Trust in 2005 and is co-manager of the CF Ruffer Total Return Fund.

Ruffer LLP

Ruffer LLP manages funds exceeding £8.7bn on an absolute return basis, including over £3.6bn in open-ended Ruffer funds (as at 30 September 2010).

Company information

Company structure	Guernsey domiciled limited company
Share class	£ sterling denominated preference shares
Listing	London Stock Exchange
Settlement	CREST
Wrap	ISA/SIPP qualifying
Discount management	Share buyback Discretionary redemption facility
Investment Manager	Ruffer LLP
Administrator	Northern Trust International Fund Administration Services (Guernsey) Limited
Custodian	RBC Dexia Investor Services
Ex dividend dates	March, September
Pay dates	April, November
Stock ticker	RICA LN
ISIN Number	GB00B018CS46
Sedol Number	B018CS4
Charges	Annual management charge 1.0% with no performance fee

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