Ruffer Investment Company Limited

An alternative to alternative asset management

SEPTEMBER 2012

ISSUE 88

Share price as at 28 Sep 2012

198.25p

NAV as at 28 Sep 2012

Net Asset Value (per share)

192.75p

Premium/(discount) to NAV

As at 28 Sep 2012

2.9%

RIC A Class since inception

Total Return (NAV)[1]

123.0%

£ Statistics since inception

Standard deviation[2]	2.02%
Maximum drawdown[3]	-7.36%

[1]Including 17.6p of dividends
[2]Monthly data (Total Return NAV)
[3]Monthly data (Total Return NAV)

Percentage growth in total return NAV

30 Sep 2011 – 30 Sep 2012	2.3
30 Sep 2010 – 30 Sep 2011	5.6
30 Sep 2009 – 30 Sep 2010	12.3
30 Sep 2008 – 30 Sep 2009	30.3
30 Sep 2007 – 30 Sep 2008	10.5

Source: Ruffer LLP

Six monthly return history

Date	NAV (p)	TR NAV* (p)	% Total return
30 Jun 12	191.9	215.8	0.0
30 Dec 11	193.5	215.8	-0.3
30 Jun 11	195.6	216.5	1.0
31 Dec 10	195.2	214.4	7.8
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
29 Jun 07	116.7	120.0	-1.4
29 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*

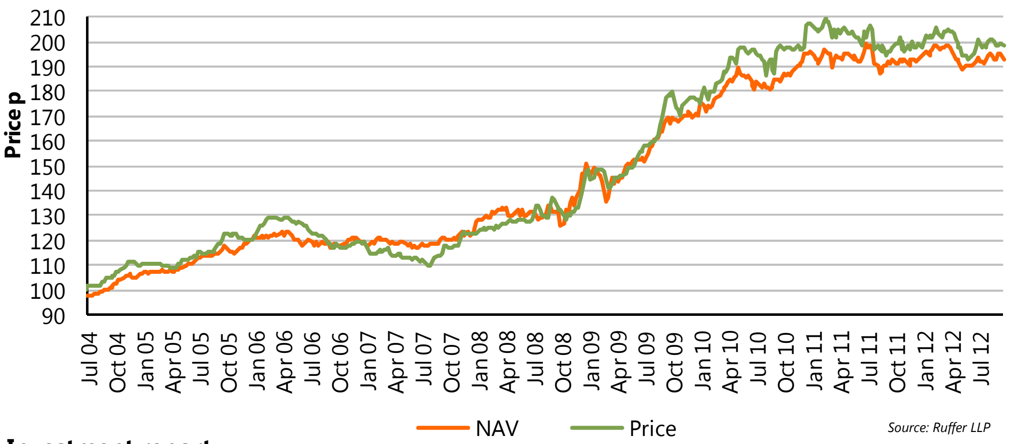
Dividends ex date: 0.5p 30 Mar 05, 30 Sep 05, 22 Mar 06 and 27 Sep 06, 1.25p 21 Mar 07, 26 Sep 07, 5 Mar 08 and 1 Oct 08, 1.5p 4 Mar 09, 30 Sep 09, 3 Mar 10, 1 Sept 10, 2 Mar 11 and 5 Oct 11, 1.6p on 29 Feb 12 and 26 Sep 12

Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. Past performance is not a guide to future performance. The value of the shares and the income from them can go down as well as up and you may not get back the full amount originally invested. The value of overseas investments will be influenced by the rate of exchange.

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 since launch on 8 July 2004



Source: Ruffer LLP

Investment report

Performance details

The net asset value at 30 September 2012 was 192.75p. After allowing for the dividend declared during the month this equates to a total return of 1.0% since the end of August. The FTSE All-Share rose by 1.1%.

Performance contributions

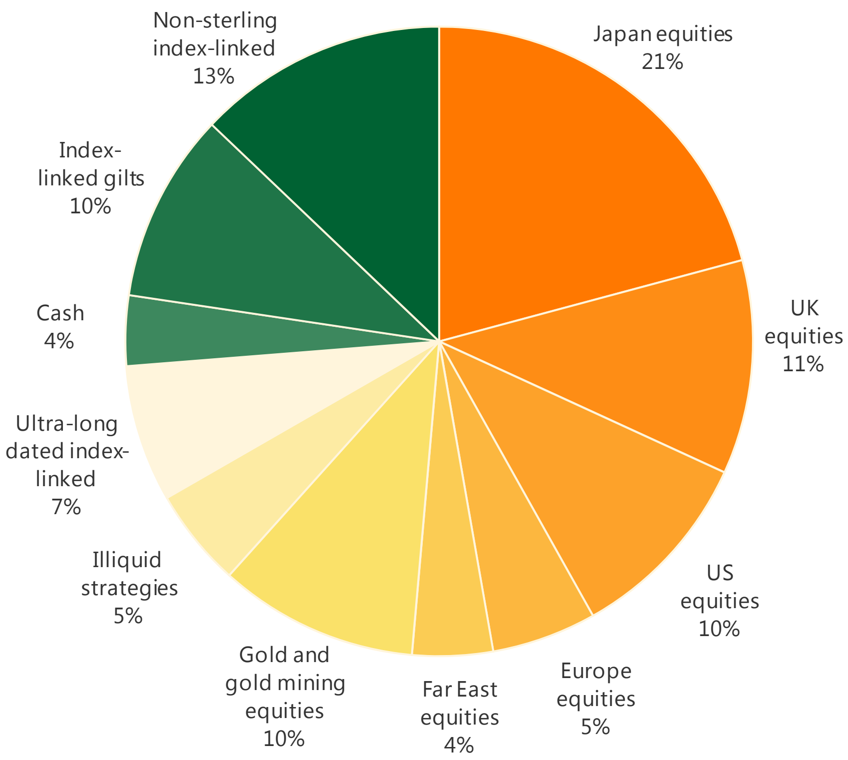
Gold equities were the best performers with Newcrest coming in at the head of the pack. We added to our bullion exposure ahead of the Fed's QE3 announcement and so far this decision has been vindicated. On the back of its own stimulus announcement Japanese equities made the next largest contribution largely thanks to the financial and life assurance stocks. These are held as an offset against our long dated index-linked bonds and their hedging credentials were needed during the month as the long bond positions in the UK came under pressure. This was partly related to a continuation of the risk-on trade but also due to the ongoing debate around the calculation of the UK inflation index to which these bonds are linked. We have written about this in the past and our view is that there is likely to be a change and it will be detrimental to holders of index-linked gilts. However, if we are right about the future path of inflation and interest rates then this change will be more of a minor irritation than a game changer as there will be very few alternatives for investors wishing to protect themselves from the ravages of negative real interest rates. The UK government will also be reluctant to upset the gilt market as this is the best vindication of their Plan A. In the short term there is no question that this debate is weighing on the prices of index linked gilts.

Market commentary

At the time of writing last month's report the financial world was eagerly awaiting the arrival of the next round of stimulus in the US and we wrote that expectations were high and that the Fed's bazooka was going to have to be impressive to satisfy these expectations. Dr Bernanke did more than enough. One of his colleagues remarked that when a car is stuck in the mud one doesn't stop pushing as soon as the wheels start gaining traction; you need to keep pushing until the vehicle has moved onto the safety of hard ground. The inference is that the Fed is prepared to tolerate inflation if that is the price of stimulating economic growth. Bernanke went further saying that QE3 should be judged on its ability to create jobs. This is significant and represents the crossing of a Rubicon in US monetary policy. The Fed is now effectively unrestrained in its use and timing of quantitative easing. This greatly increases the chances of an overshoot in the stimulus effort not least because it will be deliberate – getting the car onto hard ground.

It also changes the dynamics of the dollar as an offsetting asset. The dollar may still benefit from carry trade reversals at times of extreme deflationary stress but now that the Fed's fingers are permanently hovering over the 'Ctrl+P' buttons there is a good chance that the market will look past deflationary concerns knowing that the Fed will act, or perhaps just knowing that the Fed can act will be enough. With this in mind we have reduced our dollar exposure to 15% and countered this reduction with the aforementioned increase in gold exposure. There remain plenty of concerns ahead, not least in the form of the fiscal cliff in the US, ongoing concerns about a slowdown in China and the ever-present rumblings from peripheral Europe. What has changed is that central bankers may now be sufficiently armed to deal with some of the more immediate problems. If they can persuade politicians to back them up with supportive fiscal policies then the airbag may hold. However, looking at the bigger picture of deleveraging, nothing has changed in the patient's condition and the addiction to morphine (or is that adrenaline) is merely more entrenched.

Portfolio structure as at 28 Sep 2012



Source: Ruffer LLP

Ten largest holdings as at 28 Sep 2012

Stock	% of fund
1.25% Treasury index-linked 2017	8.1
1.25% Treasury index-linked 2055	5.3
Gold Bullion Securities	4.7
US Treasury 1.625% TIPS 2018	4.7
US Treasury 1.625% TIPS 2015	3.9
US Treasury 1.875%TIPS 2015	2.9
T&D Holdings	2.8
CF Ruffer Japanese Fund	2.7
CF Ruffer Baker Steel Gold Fund	2.4
Vodafone	2.4

Five largest equity holdings* as at 28 Sep 2012

Stock	% of fund
Gold Bullion Securities	4.7
T&D Holdings	2.8
Vodafone	2.4
Johnson & Johnson	2.4
BT	2.3

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

NAV valuation point	Weekly – Friday midnight Last business day of the month
NAV	£276.3m (28 Sep 2012)
Shares in issue	143,338,416
Market capitalisation	£284.2m (28 Sep 2012)
No. of holdings	55 equities, 8 bonds (28 Sep 2012)
Share price	Published in the Financial Times
Market makers	Canaccord Genuity Cenkos Securities | Numis Securities JPMorgan Cazenove | Winterflood Securities

HAMISH BAILLIE
Investment Director
Joined Ruffer in 2002. He founded and manages the Edinburgh office of Ruffer LLP which opened in September 2009. He manages investment portfolios for individuals, trusts, charities and pension funds and is part of the team managing the Ruffer Investment Company which is listed on the London Stock Exchange. He is a member of the Chartered Institute for Securities & Investment and a graduate of Trinity College Dublin.

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 JPMorgan European Investment Trust in 2005 and is co-manager of the CF Ruffer Total Return Fund.

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	Northern Trust (Guernsey) Limited
Ex dividend dates	March, September
Stock ticker	RICA LN
ISIN	GB00B018CS46
SEDOL	B018CS4
Charges	Annual management charge 1.0% with no performance fee

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Ruffer LLP
Ruffer LLP manages investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 28 September 2012, funds managed by the group exceeded £13.7bn.