



RUFFER INVESTMENT COMPANY LIMITED

An alternative to alternative asset management

MAY 2014

ISSUE 108

Share price as at 30 May 2014

206.50p

NAV as at 30 May 2014

Net Asset Value (per share)

206.87p

Premium/(discount) to NAV

As at 30 May 2014

-0.2%

NAV total return¹

Since inception

145.1%

Portfolio analytics² %

Standard deviation 1.95

Maximum drawdown -7.36

¹Including 24.2p of dividends

²Monthly data (Total Return NAV)

Percentage growth in total return NAV

31 Mar 2013 – 31 Mar 2014 -2.1

31 Mar 2012 – 31 Mar 2013 9.3

31 Mar 2011 – 31 Mar 2012 3.9

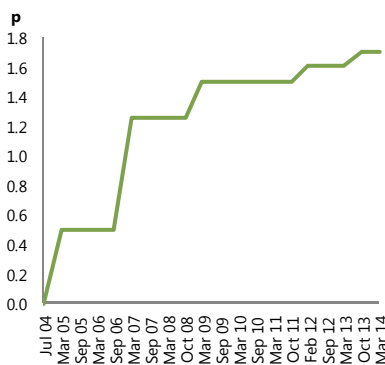
31 Mar 2010 – 31 Mar 2011 8.7

31 Mar 2009 – 31 Mar 2010 29.6

31 Mar 2008 – 31 Mar 2009 9.4

Source: Ruffer LLP

Dividend history



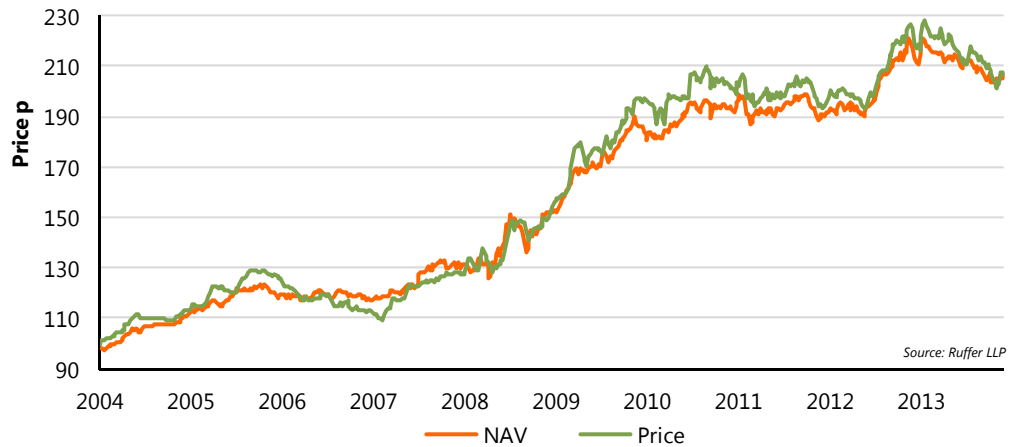
Source: Ruffer LLP. Dividends are paid twice yearly. Please see overleaf for ex-dividend dates.

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

RIC performance since launch on 8 July 2004



Investment report

The net asset value at 30 May was 206.9p, representing a rise of 1.7% during the month compared with a rise of 1.4% in the FTSE All-Share Total Return Index. The share price return during the month was 2.5%.

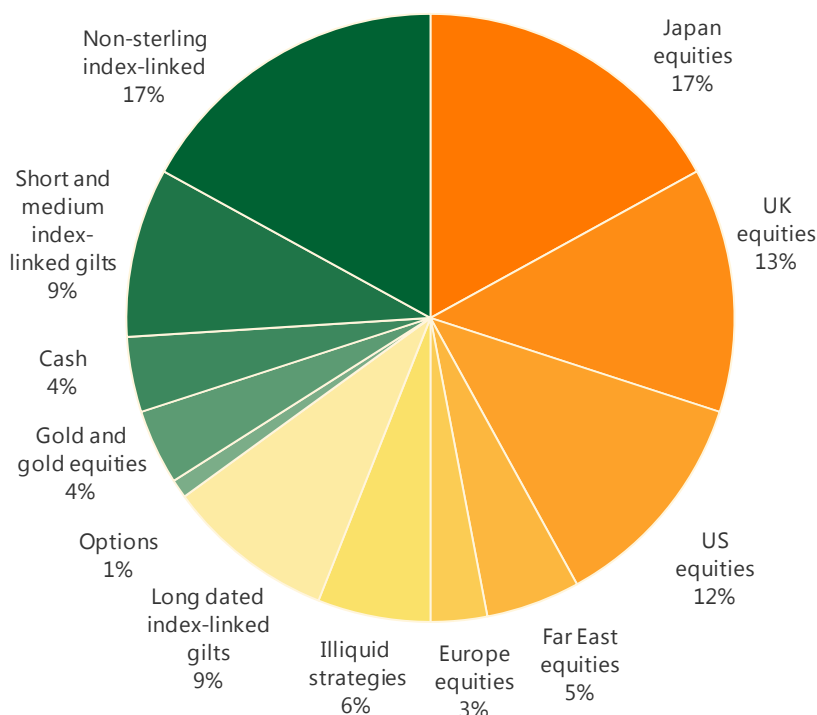
Positive contributions came from index-linked bonds (+80bps), Japanese equities (+75bps) and UK equities (+45bps) and the marginally stronger dollar also helped. Negative contributions during the month came from gold (-26bps) and the option book (-16bps). We added to our Japanese bank exposure at the beginning of May (now 5% of the portfolio) and thus far these have been profitable trades. We remain positive on the outlook for the Japanese economy and the banks stand to benefit from any credit growth that accompanies a domestic recovery. Unlike western banks these institutions have finished deleveraging and are ready, willing and able to lend.

There are some expressions that are excluded from the Ruffer lexicon; new paradigm, super-cycle, win-win, guaranteed outcome, this time it's different. The expression *du jour* is New Normal; the assertion that the natural level of interest rates after the financial crisis will be lower than the long term average (ie around 2% rather than 4%). The Federal Reserve and Bank of England, as part of their new policy approach to say more and do less (forward guidance is the technical expression), have been the main proponents of the New Normal and they have been accompanied by a supporting cast of investment heavyweights such as Bill Gross. Of course, behind closed doors there is some self-interest in promoting the New Normal. For a fund manager heavily exposed to financial assets, be they bonds or equities, it justifies record high prices. For the

central banker it buys time; the cycle of deleveraging in the west is in its infancy and will act as a drag on future growth. Lower interest rates help borrowers and punish unproductive savings thereby oiling the wheels of deleveraging. Far be it for us to question the great powers that be, but perhaps the focus of the New Normal advocates should be on real rather than nominal interest rates.

The economist Peter Warburton (of Ruffer and Economic Perspectives) put it eloquently in his Halkin Letter: 'I don't believe in the New Normal; I believe in the Old Peculiar, the volatile, jumpy world where honest money is made and foolish money is lost. Yes, we live in a world where governments and their central banks have repressed nominal interest rates and clearly would love to continue to do so. The problem is that they have not yet pulled off the other leg of the trade: the burst of inflation that stabilises the financial system while wrecking conventional government bond prices. The harder that central banks lean towards perpetual accommodation, the more certain it is that one day they will destabilise inflation and inflation expectations. The 'capping' of nominal interest rates tells us nothing about prospective investment returns. Let's be clear, if inflation expectations drift into outer space there is no Yellen put. For a time all assets – except gold and a few other honourable exceptions – will generate negative real returns. As much as central banks are adamant that they are in control of the inflation outlook they also need the inflationary surprise.' Well said – we may yet need those index-linked bonds to fight for us.

Portfolio structure as at 30 May 2014



Source: Ruffer LLP

Ten largest holdings as at 30 May 2014

Stock	% of fund
1.25% Treasury index-linked 2017	7.1
1.25% Treasury index-linked 2055	5.6
US Treasury 0.625% TIPS 2021	3.8
US Treasury 1.625% TIPS 2018	3.8
US Treasury 0.625% TIPS 2043	3.6
0.375% Treasury index-linked 2062	3.4
BP	3.2
US Treasury 2.125% TIPS 2041	2.8
T&D Holdings	2.8
CF Ruffer Japanese Fund	2.3

Five largest equity holdings* as at 30 May 2014

Stock	% of fund
BP	3.2
T&D Holdings	2.8
Mitsubishi UFJ Finance	2.1
IBM	1.9
M1 Limited	1.7

*Excludes holdings in pooled funds

Source: Ruffer LLP

NAV valuation point	Weekly – Friday midnight Last business day of the month
NAV	£318.6m (30 May 2014)
Shares in issue	154,013,416
Market capitalisation	£318.0m (30 May 2014)
No. of holdings	60 equities, 10 bonds (30 May 2014)
Share price	Published in the Financial Times
Market makers	Canaccord Genuity Cenkos Securities Numis Securities JPMorgan Cazenove Winterflood Securities

Company information

Company structure	Guernsey domiciled limited company
Share class	£ sterling denominated preference shares
Listing	London Stock Exchange
NMPI status	Excluded security
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 30 May 2014, assets managed by the group exceeded £16.8bn.



HAMISH BAILLIE
Investment Director

Joined Ruffer in 2002. Founded and manages the Edinburgh office of Ruffer LLP which opened in September 2009 and is a director of Ruffer (Channel Islands) Limited. As well as acting as the lead manager on the Ruffer Investment Company he also manages investment portfolios for individuals, trusts, charities and pension funds. 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.