RUFFER INVESTMENT COMPANY LIMITED

An alternative to alternative asset management

JANUARY 2011
ISSUE 68

Share price as at 31 Jan 2011
203.75p

NAV as at 31 Jan 2011
Net Asset Value (per share)
191.41p

Premium/(discount) to NAV
As at 31 Jan 2011
6.4%

Launch price as at 8 Jul 2004
100.00p

RIC A Class since inception
Total Return (NAV)[1]
114.5%

£ Statistics since inception

Standard deviation[2]	2.11%
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

31 Dec 09 – 31 Dec 10	16.5%
31 Dec 08 – 31 Dec 09	15.1%
31 Dec 07 – 31 Dec 08	23.8%
31 Dec 06 – 31 Dec 07	6.0%
31 Dec 05 – 31 Dec 06	0.1%

Source: Ruffer LLP

Six monthly return history

Date	NAV (p)	TR NAV* (p)	% Total return
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
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

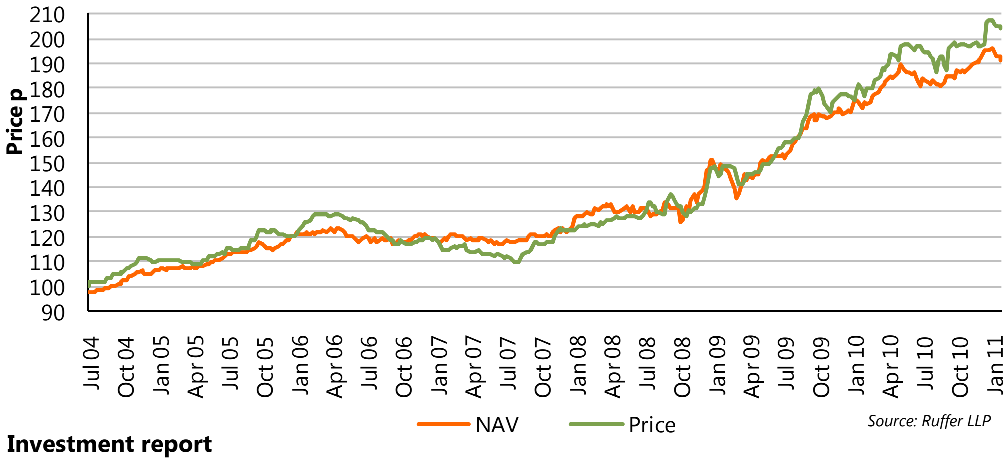
**includes re-invested dividends* *Source: Ruffer LLP*

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 Ruffer Investment Company fell 1.9% during January. The shares traded at a premium over net asset value of just over 6%, essentially unchanged from the year end.

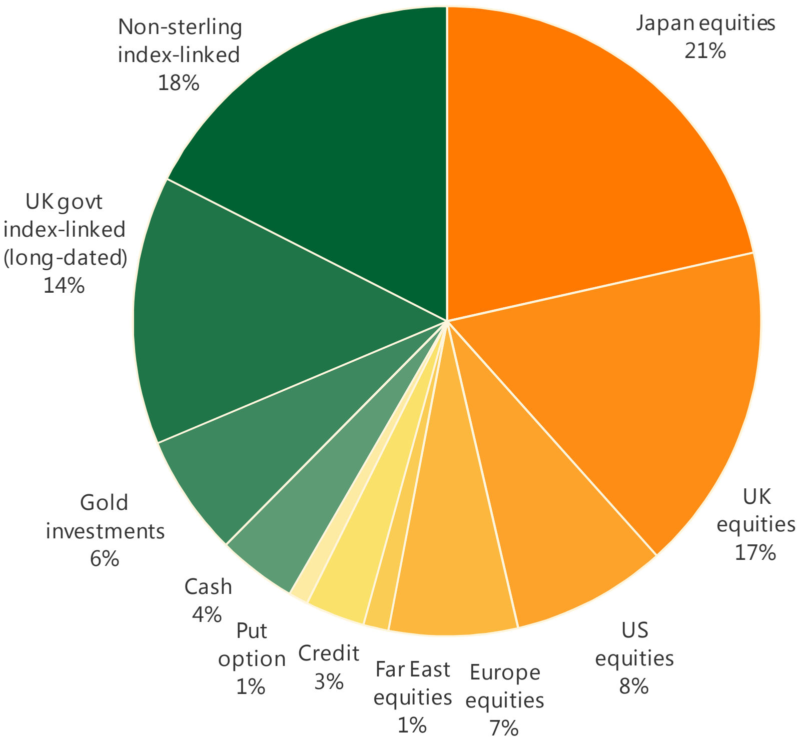
The main adverse factor in the portfolio was the sharp setback in gold shares, which cost the portfolio just over 1%: this represented more than half the net fall in the value of the fund. The disappointment with gold is that it coincided with a weakening of the dollar; generally speaking there is an opposite correlation between these two assets. While unsurprising, given the preponderance of bullishness towards gold at the end of last year, this was disappointing. Where do we stand on gold today? We remain of the view that gold is an essential part of any portfolio, but we do not share the idea that it will perform fantastically well in times of severe dislocation. In the late 1970s, when gold was a terrific investment, government issues of inflation-linked bonds did not exist, and these are a more effective way of playing high inflation than gold. The second best investment for playing a phenomenon rarely goes to the moon, although it might well reach the sunny uplands. No – gold's main purpose is to guard against deflation, and the possibility of a dollar implosion: this latter, not a view that we subscribe to, but given our diversification into that currency (currently 24%), an insurance policy against that outcome is invaluable. In fact, it is the weakness of the dollar which is perverse, since the figures coming out of America show an unequivocal underlying strength to the economy – we correctly identified this possibility, but are suffering from that well known phenomenon of being 'cleverer' than the markets. Old hands will know that, in this context 'cleverer' means 'stupider'.

Equities were generally strong, more due to good selection than the markets themselves, which drifted slightly during the period. The Japanese stocks were stronger for choice, although the hedge back to sterling was an important component in the preservation of that gain. INPEX, the very cheap Japanese integrated oil company was the pick of the selection there. The best UK stock was Vodafone, closely followed by RSA and Mecom, where we took a good profit. It was a month for high yielding big capitalisation stocks: in Europe KPN was the best performer and in America that honour went to Pfizer. We sold some Pfizer at a good level, although we would have done better to have waited for the figures (at least in terms of the dollar price).

We made a decision to lighten the equity positions taking out about 7% of the value of the portfolio from equities, reducing the percentage to around half the portfolio – still a historically high figure. We go into February, frankly relieved that the setbacks in important elements in our portfolio (gold, the dollar and, to a lesser extent, inflation linked government bonds) did not do more damage, and it was the robust performance of stock selection outside Japan, and the Japanese equity market with covered currency, which provided the protection.

We believe that financial pressures in China are building alarmingly, and that the authorities will take steps to regularise the growth in credit; absent this, there could be some high inflation figures from there – but our judgement is that China will take action before that happens. Although we remain long term inflationists, we do not share the view that the current inflationary pressures represent the vindication of the inflationist view. There could well be much more favourable inflation comparators before the arrival of persistently high rates of inflation. We are predicting a baby, but think that we may be experiencing no more than indigestion at the moment.

Portfolio structure as at 31 Jan 2011



Source: Ruffer LLP

Ten largest holdings as at 31 Jan 2011

Stock	% of fund
1.25% Treasury index-linked 2017	6.1
US Treasury 2.375% TIPS 2025	5.3
1.25% Treasury index-linked 2055	5.1
US Treasury 1.625% TIPS 2015	4.9
US Treasury 1.625% TIPS 2018	4.8
CF Ruffer Baker Steel Gold Fund	3.8
T&D Holdings	3.7
CF Ruffer Japanese Fund	3.4
Ruffer Illiquid Strategies Fund 2009 Ltd	3.1
Vodafone	3.0

Five largest equity holdings* as at 31 Jan 2011

Stock	% of fund
T&D Holdings	3.7
Vodafone	3.0
Bt Group	2.8
INPEX Corporation	2.4
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	£238.57m (31 Jan 2011)
Shares in issue	124,638,416
Market capitalisation	£253.95m (31 Jan 2011)
No. of holdings	51 equities, 7 bonds (31 Jan 2011)
Share price	Published in the Financial Times
Market makers	ABN AMRO Cazenove Cenkos Securities Collins Stewart 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 investments on a discretionary basis for private clients, trusts, charities and pension funds. As at 31 January 2010, funds managed by the group exceeded £10.5bn, of which over £4.5bn was managed in open-ended Ruffer funds.

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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