Ruffer Investment Company Limited

Investment Manager's Year End Review
for the year ended
30 June 2020

Contents

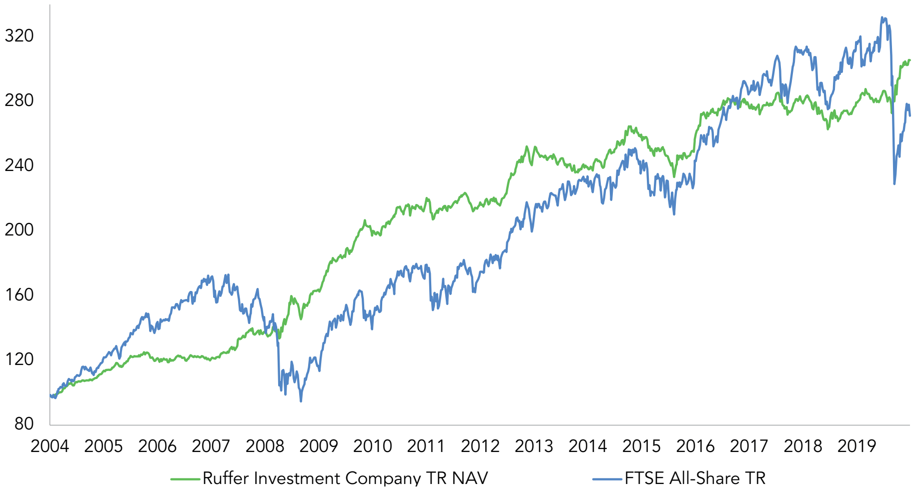
The following review from the Manager of the Ruffer Investment Company covers the 12 month period to 30 June 2020. This review is intended to give shareholders unaudited key performance indicators and a portfolio review in a timely fashion. The audited Annual Financial Report will be released in the normal way in mid-September 2020 once the audit process is complete.

Key performance indicators (unaudited)	30 June 2020 %	30 June 2019 %
Share price total return over 12 months[1]	12.4	(5.7)
NAV total return per share over 12 months[1]	10.1	(0.9)
Discount of traded share price to NAV	(1.5)	(4.0)
Dividends per share over 12 months	1.85p	1.80p
Annualised dividend yield	0.8	0.8
Annualised NAV total return per share since launch[1]	7.4	7.2
Ongoing charges ratio	1.08	1.13

Financial highlights (unaudited)	30 June 2020	30 June 2019
Share price (bid)	242.00p	216.00p
NAV	£444,389,282	£406,745,803
Market capitalisation	£437,507,967	£390,502,979
Number of shares in issue	180,788,416	180,788,416
NAV per share[2]	245.81p	224.98p

1 Assumes reinvestment of dividends

2 NAV per share as released on the London Stock Exchange.



Source: Ruffer LLP, Factset. Cumulative performance July 2004 to 30 June 2020, in pounds sterling. Performance data is included in the appendix.

Investment Manager's report

Performance review

The share price return of 12.4% and the NAV return of 10.1% for the year to 30 June 2020 are good results at a time of significant market stress and profound economic uncertainty. The portfolio has achieved its objective of preserving shareholder capital regardless of the market conditions. Furthermore, we have produced some much-needed growth and feel confident about our prospects from here.

Ruffer has now produced a positive return in the three major bear markets since the firm began in 1994, making money for our clients and shareholders in 2000-3, 2008 and… so far… in 2020. Ruffer Investment Company, which was launched in 2004, has weathered two of these storms.

The first half of 2020 has demonstrated how the Ruffer strategy should perform. We protected capital in the sell-off in February and March, but we also managed to capture the rebound since April posting a one of our strongest quarters ever in Q2 2020. This is reminiscent of our performance in 2008 when we produced strong NAV returns in a bear market and then followed up with a good return in 2009's bull market.

Although this report covers the last 12 months, the first eight seem remarkably insignificant in the context of the pandemic. We covered the major events in our interim report to December 2019. Recapping what has happened since, after a positive start to 2020, stock markets plunged in March on escalating fears of the global impact of COVID-19 and a Russian-Saudi oil price war. The virus shook the world and dragged the global economy into the deep freeze from February. The combination of these events revealed the structural and technical frailties in what we had come to call 'avalanche prone' markets. In the fastest decline in stock market history, equity markets fell by a third in just 22 days, hitting their lows on 23 March, the very day the UK officially went into lockdown.

Cue the cavalry. Stock markets rallied in the second quarter as central banks, very much led by the US, swung into their now habitual role of supporting asset prices. The size, breadth and swiftness of the monetary and fiscal intervention is unprecedented in peacetime and we wait to see whether it is sufficient to keep businesses and employment afloat, but for now at least, it has been a big enough bazooka to reassure investors. In April and May equity markets duly recorded one of their fastest recoveries.

Portfolio attribution

Of course, we did not see the coronavirus crisis coming but our all-weather portfolio construction means we don't need a crystal ball, we should always be prepared. In the downturn it was the portfolio's protective assets which generated the returns. In the last six months notable positive contributions came from credit protection (+6.2%), gold (+5.1%), index-linked bonds (+3.9%) and option protection (+3.3%). The negative side of the ledger was dominated by equities, where we were hit hard (-10.5%). Overall, in the acute period of the crisis the portfolio behaved in a balanced fashion and as we would expect.

It is worth highlighting the success of our unconventional protections which have cost the portfolio in recent years. The Ruffer Illiquid Multi-Strategies Fund contained our positions to benefit from rising credit spreads and burst into life, almost doubling at the peak of the market stress. The options on rising volatility and falling equity indices rose by between 20 and 100-fold, proving that whilst small in size they could be ferocious at the right moment. Lastly, the LF Ruffer Gold Fund rose 56% in the six months to 30 June 2020.

The equity book was bruising as stated above. Our holdings were deliberately potent because they were an offset to our large defensive positions elsewhere. Our focus on value and cyclicals resulted in many of our stocks falling more than the market as economic prospects collapsed. In the last 6 months, UK banks cost the portfolio (-2.8%) as optimism from the 2019 General Election turned into recession and loan-loss concerns.

We continue to look for special situation stocks in areas such as merger-arbitrage where we generated fairly low risk profits (0.5%) in owning Celgene and Grubhub as they were taken over. The best performing individual stock for the year was Ocado which is transforming from a food retailer to a global software platform and rose 72% adding 0.7% to performance.

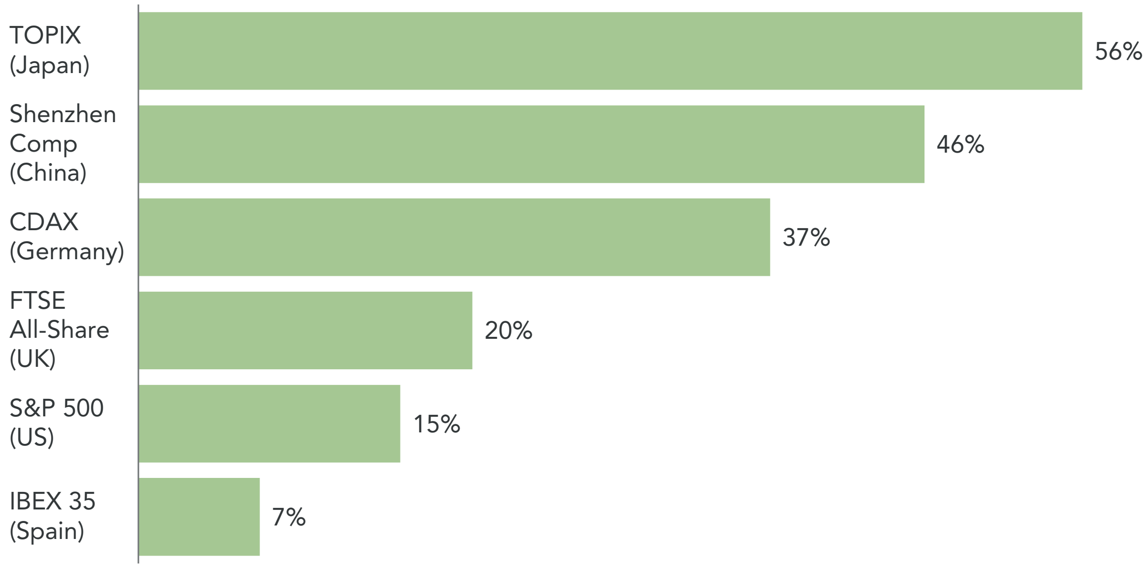
Portfolio changes

We entered 2020 defensively positioned due to a wide variety of economic, political and market risks which we did not believe were discounted in elevated valuations and stretched balance sheets.

In January we bought a basket of Japanese companies which we believe are ripe for engagement and activism to improve governance and shareholder returns by paying out excess cash, selling down cross-shareholdings, or engaging in M&A. The virus has disrupted the positive trend in corporate activity, but these businesses are extremely conservatively run and compellingly valued. These are small positions individually but cumulatively add up to almost 2% of the portfolio.

As the chart below shows, the Japanese market in general has two ways to win thanks to its previous conservatism. Due to Japanese companies' robust balance sheets they can now be on the front foot to take market share and invest in growth or alternatively they can increase their dividend pay-out ratios and become a source of income in a yield starved world.

% of companies with net cash balance sheets



Source: CLSA data as at 21 April 2020.

In March we faced a decision about adding to equities as they fell. Rather than catching what felt like a falling knife in the equity market, we were excited to be given an opportunity to add to distressed and disrupted positions in other asset classes. We added more than 2% to gold equities in mid-March; these had sold off in line with the equity market and had not yet started to respond to the improving fundamentals for gold – zero rates and quantitative easing, or for their operating costs – cheaper labour and oil prices.

Another casualty of the panic and forced selling was US inflation-linked bonds. This presented a brief but compelling opportunity to extend the duration of our US TIPS. We moved 8% of the portfolio from short dated bonds out to beyond 2040 giving this part of the portfolio greater potency should real yields falls.

These two moves increased our portfolio risk and duration but in a more oblique and targeted fashion than buying equities. On a risk adjusted basis this was one of the most attractive trades we have made in the last decade, the forced selling was purely technical and we could deploy a large amount of capital quickly. We preferred the risk/reward in these trades over equities as they were closer to the source of a rally which was likely to be driven by government intervention.

We added a little to existing holdings in Royal Bank of Scotland and Lloyds. We re-initiated a position in Barratt Developments, the housebuilder. A new holding, Vinci, is a key infrastructure player in France controlling roads, concessions, and construction. We managed to buy it well, almost 50% off its recent highs with a 10% free cashflow yield.

Towards the end of the period we continued to take profits in quality and growth companies, trimming Ocado, Sony and US healthcare stocks. The proceeds have been used to focus the equity book more into value and cyclical stocks. Recent additions include American Express, Charles Schwab and Cemex. Overall, we maintain a low equity weighting given the market and economic outlook.

Investment outlook

As always, our goal remains to provide consistent positive returns regardless of what the market or economy throws at us. There is an epoch-defining tug-of-war going on between the unprecedented interventions of governments and central banks versus the unimaginable disruption to the functioning of the global economy caused by the pandemic. One of the most obvious consequences is that the inflationary endgame is closer and more likely than it was six months ago. Borrowing is currently going through the roof in order to fund the emergency measures put in place by governments. Previously one might have said that keeping interest rates below the rate of inflation (financial repression) was desirable, now it is a necessity if these promises are going to be affordable.

The world today, in lockdown, is unequivocally deflationary but the solutions are unequivocally inflationary. A significant change of the last six months is that politicians rather than central bankers now have their hands on the steering wheel and they have an entirely different set of objectives and incentives.

The stable inflationary environment of the last 30 years leads to a problem of imagination. Nobody much under 60 has any clear memory of what it is like to deal with inflation as a real world problem. But inflation is very much a behavioural phenomenon – if you know your money will not be worth as much tomorrow, you will go out and spend it today. For now these expectations lie dormant, but they can very quickly become self-reinforcing as we recently saw with the rush to turn money into goods on supermarket shelves. Remember at its simplest, inflation is caused by too much money spent chasing too few goods.

On top of this, austerity is dead and fiscal spending is here to stay. What's more it is currently being financed by central bank money printing. It doesn't matter whether it is the political left or the right in power – they all have their own expensive plans to stimulate and get the economy going again.

From the US Democrats' Green New Deal or Medicare-for-All, Trump's Coronavirus Stimulus Cheques, to Rishi Sunak's furlough schemes, bounce back loans and stamp duty holidays, the spending rabbit is well and truly out of the hat.

But the problem with 'printing money' is one of control. Once voters know that unfettered money can be bestowed so easily, politicians will suffer greater pressure to create more! As Milton Friedman said, 'Nothing is so permanent as a temporary government program'.

This is an environment of financial repression – interest rates held below the rate of inflation for a sustained period. We have already had a decade and we think it is going to get worse.

In short, we are entering a new regime, and in contrast to the world we have lived through it will favour labour over capital and will be less friendly to the asset owner. This means our job of protecting our shareholders is getting harder but it also makes the answer clearer, more certain.

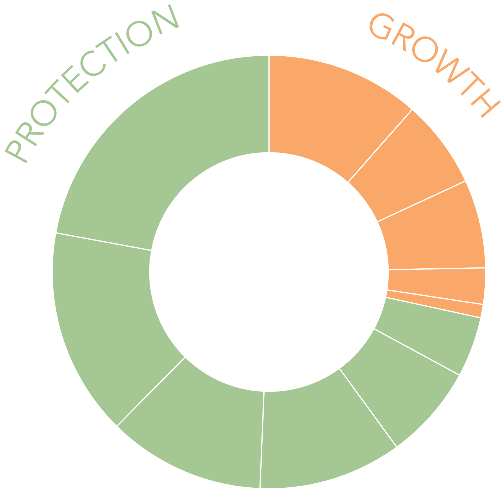
The solutions to the crisis this time have resulted in money being injected directly into the real economy and people's pockets, those companies and citizens who desperately need it and will spend it. Quite the contrast to stimulus being stuck on bank balance sheets as happened in the aftermath of the global financial crisis.

Economic and market regimes matter, we think the corona-crisis will act as an accelerant into a new regime of high economic and market volatility and higher inflation. All of these are bad for asset prices. If this is the case, then investors must protect themselves against it. This world will require a profoundly different portfolio from the one which has served investors well over the last couple of decades.

A portfolio of index-linked bonds, gold and value stocks (which benefit from stimulated GDP growth) and a significant sprinkling of protection against market calamity looks to be the right mix. We have survived the initial onslaught but this story is not over; economic events have gone from a jarring spectacle to a corrosive malaise which will play out over the coming months and maybe years.

At Ruffer our approach has always been not to try to precisely time events, but to position our portfolio in anticipation of the environment we believe will inevitably emerge. We will continue to strive to produce a defensive, uncorrelated return which can offer useful diversification and peace of mind to our shareholders.

Asset allocation



	30 June 2020 %	30 June 2019 %
Non-UK index-linked bonds	21.6	12.4
Credit protection and options	13.0	8.5
Cash	10.7	4.0
Gold and gold equities	10.6	7.7
Long-dated index-linked gilts	10.1	13.6
Short-dated gilts	3.6	12.4
Other index-linked gilts	0.5	0.6
	%	%
UK equities	13.0	10.3
North America equities	6.9	14.3
Japan equities	6.8	10.8
Europe equities	2.6	3.8
Asia ex-Japan equities	0.6	1.6

Source: Ruffer LLP

Ruffer AIFM Limited

10 July 2020

Portfolio statement (unaudited)

as at 30 June 2020 (unaudited)

	% of total net assets
Non-UK index-linked bonds 21.54%	
Japanese Government Index-Linked Bond 0.10% 10/03/2026	0.60
Japanese Government Index-Linked Bond 0.10% 10/03/2027	0.60
Japanese Government Index-Linked Bond 0.10% 10/03/2028	0.59
US Treasury Inflation Indexed Bond 0.125% 15/04/2021	1.97
US Treasury Inflation Indexed Bond 1.750% 15/01/2028	5.83
US Treasury Inflation Indexed Bond 0.875% 15/01/2029	3.15
US Treasury Inflation Indexed Bond 0.625% 15/02/2043	3.58
US Treasury Inflation Indexed Bond 0.750% 15/02/2045	3.39
US Treasury Inflation Indexed Bond 0.250% 15/02/2050	1.83
Total non-UK index-linked bonds	21.54
United Kingdom bonds 14.21%	
Long-dated index-linked gilts	
UK Index-Linked Gilt 0.375% 22/03/2062	4.67
UK Index-Linked Gilt 0.125% 22/03/2068	5.41
Total long-dated index-linked gilts	10.08
Short-dated gilts	
UK Gilt 2.000% 22/07/2020	3.60
Other index-linked gilts	
UK Index-Linked Gilt 1.875% 22/11/2022	0.53
Total UK gilts	14.21
Total government bonds	35.75

	% of total net assets
Equities 29.91%	
Europe	
Carrefour	0.36
Vinci	0.75
Vivendi	0.37
ArcelorMittal	1.15
Total Europe equities	2.63

United Kingdom	
Barclays	0.47
Barratt Developments	0.45
Belvoir Lettings	0.23
Breedon	0.30
Countryside Properties	0.63
Grit Real Estate	0.23
Hipgnosis Songs Fund	0.36
Lloyds Banking Group	1.81
Ocado Group	0.77
PRS Real Estate Investment Trust	0.41
Renn Universal Growth Trust	0.36
Royal Bank of Scotland Group	0.93
Royal Dutch Shell	0.50
Ruffer SICAV UK Mid & Smaller Companies Fund	3.48
Secure Trust Bank	0.09
Tesco	1.59
Tufton Oceanic Assets	0.39
Total UK equities	13.00

	% of total net assets
North America	
American Express	0.86
Benefytt Technologies	0.17
Bristol Myers Squibb CVR	0.05
Cemex	0.47
Centene	0.60
Charles Schwabb	0.36
Cigna	0.61
Ehealth	0.34
ExxonMobil	0.46
General Motors	0.87
JPMorgan Chase	0.51
Synchrony Financial	0.40
Walt Disney	1.21
Total North America equities	6.91
Japan	
Bandai Namco Holdings	0.29
Central Glass	0.04
Dena	0.04
Fuji Electric	0.42
Fuji Media	0.04
Fujitec	0.06
Fujitsu	0.85
Hoya	0.35
Japan Petroleum Exploration	0.03
Kato Sangyo	0.11
Koito Manufacturing	0.05
Mitsubishi Electric	0.61
Mitsubishi Heavy Industries	0.38
Nippo	0.06

	% of total net assets
Nippon Seiki	0.07
Nippon Television	0.04
Nissan Shatai	0.09
Nomura Real Estate Holdings	0.80
NTT Data	0.04
Orix	0.52
Sekisui Jushi	0.03
Shin-Etsu Polymer	0.05
Sony	0.67
Tachi-S	0.06
Teikoku Sen-I	0.10
Toagosei	0.06
Toei Animation	0.10
Toei	0.05
Token	0.05
Tokio Marine	0.39
Tokyo Broadcasting	0.05
Toppan Forms	0.05
Torii Pharmaceutical	0.05
Toyota Industries	0.05
TS Tech	0.05
TV Asahi	0.04
Total Japan equities	6.74

	% of total net assets
Asia (ex-Japan)	
Swire Pacific	0.34
Weiss Korea Opportunity Fund	0.29
Total Asia (ex-Japan) equities	0.63
Total equities	29.91
Gold and gold equities 10.62%	
AngloGold Ashanti	1.07
IAmGold	1.29
Ishares Physical Gold	1.08
Kinross Gold	1.31
LF Ruffer Gold Fund	3.08
Newcrest Mining	1.22
Newmont Gold	0.56
Wheaton Precious Metals	1.01
Total gold and gold equities	10.62
Credit protection and options 13.03%	
Ruffer Illiquid Multi Strategies Fund 2015	8.74
Ruffer Protection Strategies International	4.29
Total credit protection and options	13.03
Total investments	89.31
Cash and other net assets	10.69
	100.00

Appendix

Regulatory performance data

To 31 Dec %	†2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	‡2020	Annualised
RIC NAV TR	8.9	14.0	0.1	6.0	23.8	15.1	16.5	0.7	3.4	9.5	1.8	-1.0	12.4	1.6	-6.0	8.4	6.7	7.4
FTSE All-Share TR	12.3	22.0	16.8	5.3	-29.9	30.1	14.5	-3.5	12.3	20.8	1.2	1.0	16.8	13.1	-9.5	19.2	-17.5	6.6

† From July 2004

‡ To June 2020

Source: Thomson Datastream, Ruffer, FTSE International (FTSE)†. Please note that past performance is not a reliable indicator of 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. Calendar quarter data has been used up to the latest quarter end. Ruffer LLP is authorised and regulated by the Financial Conduct Authority.