Ruffer Investment Company Limited

An alternative to alternative asset management

AUGUST 2011
ISSUE 75

Share price as at 31 Aug 2011

198.50p

NAV as at 31 Aug 2011
Net Asset Value (per share)

189.15p

Premium/(discount) to NAV
As at 31 Aug 2011

4.9%

Launch price as at 8 Jul 2004

100.00p

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

113.6%

£ Statistics since inception

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

[1]Including 14.5p of dividends
[2]Monthly data (Total Return NAV)
[3]Monthly data (Total Return NAV)

Source: Ruffer LLP

Percentage growth in total return NAV

30 Jun 2010 – 30 Jun 2011	8.8%
30 Jun 2009 – 30 Jun 2010	21.8%
30 Jun 2008 – 30 Jun 2009	18.6%
30 Jun 2007 – 30 Jun 2008	14.8%
30 Jun 2006 – 30 Jun 2007	-0.8%

Source: Ruffer LLP

Six monthly return history

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

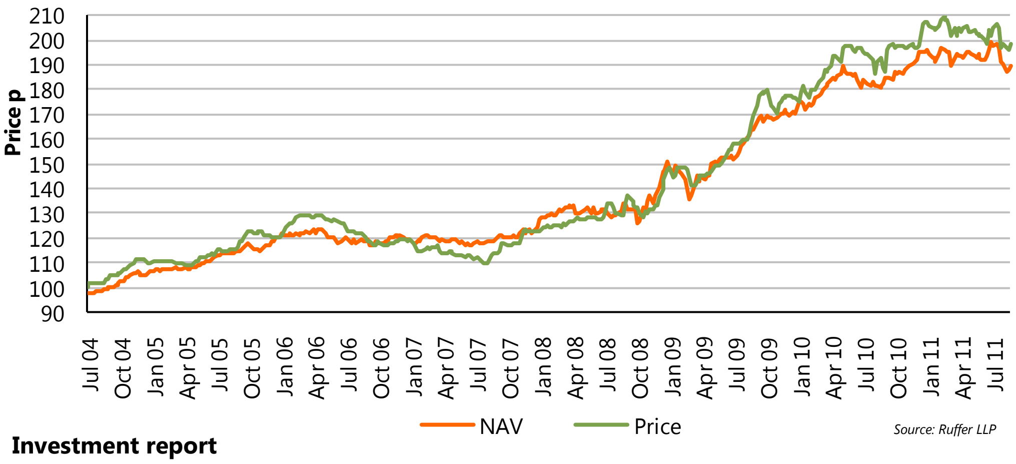
**includes re-invested dividends* *Source: Ruffer*

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 and 2 Mar 11

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

During the course of a pretty depressing August, the asset value dropped by just under 3.9% to 189.2p. The share price dropped by a slightly smaller amount, widening the premium from 4.2% to 4.9%. The number of shares issued during the month was 1.1 million, bringing the total shares outstanding for the trust to almost exactly 130 million.

During turbulent times, it is always quite a good idea not to trade too much. We sold some Daiwa to reduce the beta of our exposure in Japan, purchased RSA and bought back the German property stock, Conwert Immo, which we had sold earlier at a profit. This was seriously oversold, and has got off to a good start, unlike RSA. The net result of all these deals was neutral.

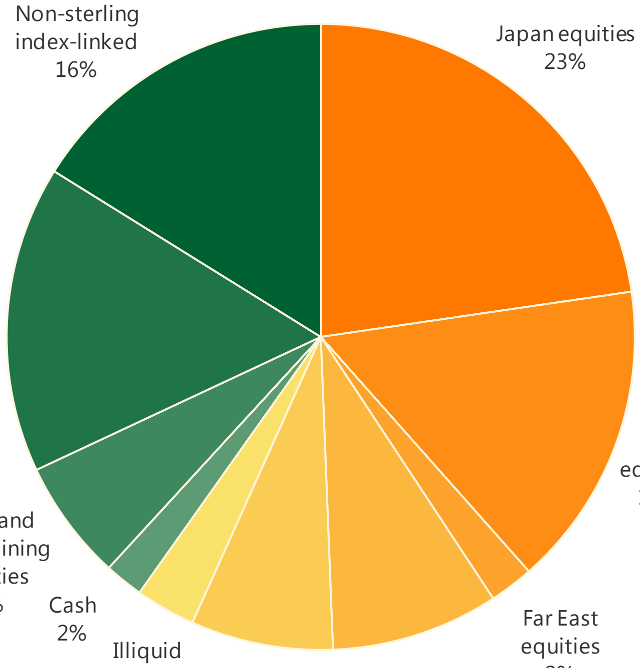
The sharp fall over the course of the month was a little unrepresentative of the dynamics within the mix of the portfolio. Not surprisingly, UK equities were a poor performer, costing the portfolio about 1.5%, and Japan worse. Europe did very little damage, and US equities were slightly positive. Somewhat counter-intuitively, the UK index-linked stocks lost ground, but this reflected the fact that they had had their run in late July, and they have more than earned their keep as protectors of value in difficult markets. The US TIPS continued their excellent run and more than compensated for the setback in the UK inflation-linkers. The Japanese hedge back into sterling also cost us money.

Now is the time to look back over the performance this year, after allowing for the dividend paid out in March, the net asset value is down by about 2.4% year to date. This compares with a fall in the world indices (expressed in sterling) of about 10%.

When we are asked to summarise in a sentence how we run money, we tend to say something like 'balancing investments in greed with investments in fear'. While it is never quite as simple as that, the idea of the offsetting asset is crucial to what we do. This is a particular challenge at the moment. The investments in greed are volatile, with a strongly downwards bias. The investments in fear are easily identified: government bonds and currencies of favoured nations, led by Switzerland, Singapore and the commodity based countries, and gold. The difficulty for investors wanting to find the balance between greed and fear is therefore not to identify the latter; they are available a-plenty. The problem is that they are priced in bubble-wrap. That cannot perhaps be said of gold, simply because it has no fundamentals, but it is easily seen in currencies. At the high point, the Swiss franc was trading more than 70% higher than its 'Purchasing Power Parity'. This is a sophisticated variant on the McDonalds test: what's the difference in price between a jolly good scoff in Geneva, and one in New York? PPP is a sure-fire way of coming up with the wrong answer if one is trying to trade a currency against its purchasing power, since currency values and spending power can move in opposite directions for extended periods of time. Nevertheless it is a fundamental. So the question arises: do you want to pay 70% too much for owning the beneficiary of fear? The cynic might say that is a fearful thing to do. The same is true with government bond yields. Ten year treasuries (US government paper) are now trading at 2.2%. Even Kenya, when they stole the white settlers land in 1963 deigned to offer a 3% coupon! The big cheese of Pimco has said, rightly, that this is a crazy price to pay – indeed it is, but when the dot.com stocks were riding high, buying the deeply overvalued favourites was the easiest way of making money in the short term. Fear investments are now in a bubble. The IMF has estimated that to accommodate the liquidity which is looking for a 'riskless' home, there would need to be a further $1.5 trillion of safe assets. No surprise, then, that the stock of safe investments is riding dangerously high – reinforced as it is by those who can euphemistically be described as momentum investors (although whether investors is quite the right word, is another matter).

What is our answer to this? We believe that inflation will be the hammer which strikes the anvil, and conventional bonds in safe areas will fall very sharply. We, too, are concentrated in government bonds, but have elected for the inflation-linked variety. At the moment we are making money from them because of their consanguinity with conventional bonds. To the extent that this continues, they too are in dangerous territory. Our strong belief is that the fundamentals will more than save them at their current valuations – but we cannot be sure that there will not be a *caesura* when all bonds fall, conventional and index-linked alike. We are therefore straining to find protection for this asset class, itself a protection for our investments in greed.

Portfolio structure as at 31 Aug 2011



Source: Ruffer LLP

Ten largest holdings as at 31 Aug 2011

Stock	% of fund
1.25% Treasury index-linked 2017	7.6
US Treasury 2.125% TIPS 2040	6.4
1.25% Treasury index-linked 2055	5.5
US Treasury 1.625% TIPS 2018	5.0
US Treasury 1.625% TIPS 2015	4.8
CF Ruffer Baker Steel Gold Fund	3.7
Vodafone	3.3
Ruffer Illiquid Strategies Fund 2009 Ltd	3.1
CF Ruffer Japanese Fund	3.0
T&D Holdings	2.9

Five largest equity holdings* as at 31 Aug 2011

Stock	% of fund
Vodafone	3.3
T&D Holdings	2.9
Koninklijke KPN	2.9
Nippon Telegraph & Telephone	2.7
INPEX	2.4

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

NAV valuation point	Weekly – Friday midnight Last business day of the month
NAV	£245.7m (31 Aug 2011)
Shares in issue	129,888,416
Market capitalisation	£257.8m (31 Aug 2011)
No. of holdings	51 equities, 6 bonds (31 Aug 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 August 2011, funds managed by the group exceeded £12bn, of which over £5.2bn 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
Stock ticker	RICA LN
ISIN Number	GB00B018CS46
Sedol Number	B018CS4
Charges	Annual management charge 1.0% with no performance fee

Enquiries

Alexander Bruce
Tel +44 (0)20 7963 8104
Fax +44 (0)20 7963 8175
rif@ruffer.co.uk
www.ruffer.co.uk

Ruffer LLP
80 Victoria Street
London SW1E 5JL