RUFFER INVESTMENT COMPANY LIMITED

An alternative to alternative asset management

JANUARY 2010

ISSUE 57

Share price as at 31 Jan 2010

179.00p

NAV as at 31 Jan 2010

Net Asset Value (per share)

171.96p

Premium/(discount) to NAV

As at 31 Jan 2010

4.1%

Launch price as at 8 Jul 2004

100.00p

RIC A Class since inception

Total Return (NAV)[1]

89.5%

£ Statistics since inception

Standard deviation[2]	2.16%
Sharpe ratio[3]	1.02
Maximum drawdown[4]	-7.36%

[1]Including 10.0p of dividends

[2]Monthly data (Total Return NAV)

[3]Monthly data annualised (Total Return NAV)

[4]Monthly data (Total Return NAV)

Source: Ruffer LLP

Percentage growth

In Total Return NAV	
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%
31 Dec 04 – 31 Dec 05	14.0%

Source: Ruffer LLP

Six monthly return history

Date	NAV	% Total return
31 Dec 09	170.3p	12.6%
30 Jun 09	152.6p	2.2%
31 Dec 08	150.9p	16.0%
30 Jun 08	131.3p	6.7%
31 Dec 07	124.2p	7.5%
30 Jun 07	116.7p	-1.4%
31 Dec 06	119.6p	0.6%
30 Jun 06	119.4p	-0.5%
30 Dec 05	120.5p	7.9%
30 Jun 05	112.2p	5.6%
31 Dec 04	106.7p	8.9%

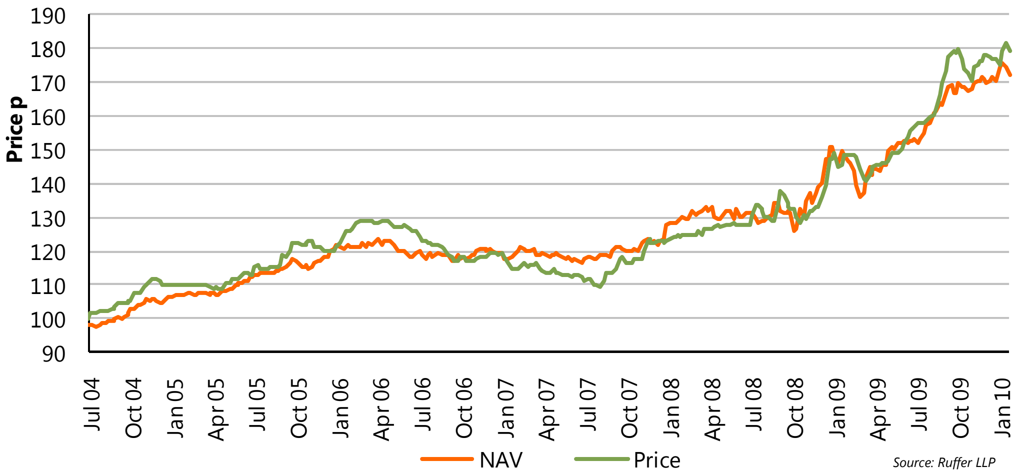
Source: Ruffer LLP

Dividends ex date: 0.5p 30 Mar 05, 31 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 and 31 Sep 09

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 base 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 the Fund currently stands at 171.96p, a rise of 1.0% during the month. The share price rose 1.3% in January and the premium over NAV was 4.1%.

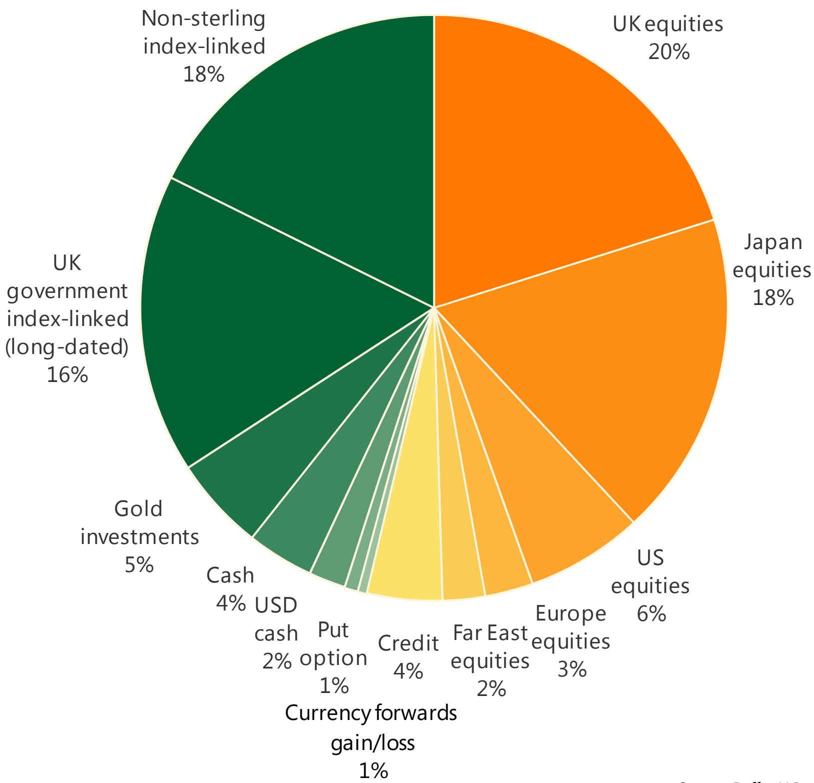
As regards attribution, the Japanese hedges cost money, but this was more than made up for by the stock performances in Japan, which did us proud, especially Itochu and the REITs. NT&T was a good counter, coming off an oversold position at the end of the year. The dollar, which we have favoured, has been a good place to be, which has meant that the TIPs holdings have been satisfactory, and the equities have done better than they would otherwise have done. On the darker side, the gold holdings were a swizz.

A few deals were done, none of any great significance. We bought back, at a lower price, the BP which we sold on 18 January. The effect was to acquire an extra 10,000 BP shares for 'free'; we would have done well to wait for the figures before buying them back. We continued the theme of switching from smaller companies to bigger ones, with partial sales of Colt Telecom and Raisio, and the remainder of the sale of Sterling Energy. This last stock proved to be an excellent investment in the end. The sale of Raisio, a food company, was replaced by Ajinomoto, which should benefit from a world shortage of food through its lithin products – we believe that the over-production in this sector of the market is temporary, and the misjudged purchase of new lithin plant capability will prove to be an error of timing, rather than an outright mistake. We converted the sale of the gold bullion into dollars at just over $1.60.

The verdict on RIC's performance this year is a case of, 'so far, so good'. Our 'large view' is that the aftermath of the 2008 dislocation will result in high levels of inflation throughout the western world, with interest rates kept well below the rate of inflation. This view we hold with high conviction, but that conviction is not translated into an obviously appropriate investment strategy. These large events often take much longer to come about than one might think, and the danger is not so much that we turn out to be wrong (although we accept that we might well be), but that it does not happen in an investable timescale. Of itself this is not such a concern, as we routinely invest in such a way that our grand strategy views do not have to be vindicated straight away, and we hope always to find opportunities of making money in other ways while we wait for events to unfold. This, however, brings us on to a second danger. The denouement might well be inflationary, but in the zigs and zags which lead up to this final event, we expect to see some developments which could be of a sharply deflationary nature. Given that the backcloth to the economic world is almost wholly deflationary, it is important that we recognise this, and guard against it. Indeed, we are expecting exactly this development in the short term. The Obama/Volcker rhetoric in America about the curbing of the banking sector might be at the moment no more than words, but we expect actions to follow these words – and these actions are likely to be of a deflationary nature. There is firm evidence that Chinese banks are cutting back sharply on lending: this, too, is deflationary. The most worrisome development is what is going on in Greece. We have always felt that Greece has always had the capacity to punch above its weight in the sodification stakes. The reason for this is not only the tensions that this puts on the European system – both political and financial, but also because sovereign debt is used as collateral by the European banking system in a way that the subprime paper was an integral part of the American securitisation initiatives of the boom years of 2006/2007. Gillian Tett in the Financial Times (5 Feb 10) has highlighted another, not unrelated issue: that the ECB has loosened rules that govern how banks get funding from central banks, allowing them to use Greek debt. As things stand this policy might well revert to stricter criteria, which would exclude them. Either way, don't hold your breath for soar away lending figures from the European zone.

Accordingly, we have ditched our gold bullion, and increased our put protections in the Baker Steel Gold Fund. We have swung heavily into the dollar (27.7%), which we see as the outright beneficiary of this policy; this had not shown its effectiveness at the end of January, but we think it might be a feature for February.

Portfolio structure as at 31 Jan 2010



Source: Ruffer LLP

Ten largest holdings as at 31 Jan 2010

Stock	% of fund
1.25% Treasury index-linked 2017	8.3
US Treasury 2.375% TIPS 2025	5.8
1.25% Treasury index-linked 2055	5.3
US Treasury 1.625% TIPS 2015	5.0
US Treasury 1.75% TIPS 2028	4.2
Ruffer Illiquid Strategies Fund 2009 Ltd	4.1
Cash	3.7
CF Ruffer Baker Steel Gold Fund	3.2
BT	3.0
Vodafone	2.9

Five largest equity holdings* as at 31 Jan 2010

Stock	% of fund
BT	3.0
Vodafone	2.9
BP	2.6
Kroger	2.4
Itochu	2.2

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

NAV valuation point	Weekly – Friday midnight Last business day of the month
NAV	£158.9m (31 Jan 2010)
Shares in issue	92,379,703
Market capitalisation	£165.3m (31 Jan 2010)
No. of holdings	42 equities, 7 bonds (31 Jan 2010)
Share price	Published in the Financial Times
Market makers	Winterflood Securities ABN AMRO Cenkos Securities Cazenove Numis 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 funds exceeding £5.8bn on an absolute return basis, including over £2.1bn in open-ended Ruffer funds (as at 31 January 2010).

Fund 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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