Ruffer Investment Company Limited

An alternative to alternative asset management

JULY 2010
ISSUE 63

Share price as at 30 Jul 2010

193.00p

NAV as at 30 Jul 2010
Net Asset Value (per share)

181.68p

Premium/(discount) to NAV
As at 30 Jul 2010

6.2%

Launch price as at 8 Jul 2004

100.00p

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

101.9%

£ Statistics since inception

Standard deviation[2]	2.15%
Maximum drawdown[3]	-7.36%

[1]Including 11.5p 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 09 – 30 Jun 10	21.8%
30 Jun 08 – 30 Jun 09	18.6%
30 Jun 07 – 30 Jun 08	14.8%
30 Jun 06 – 30 Jun 07	-0.8%
30 Jun 05 – 30 Jun 06	7.3%

Source: Ruffer LLP

Six monthly return history

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

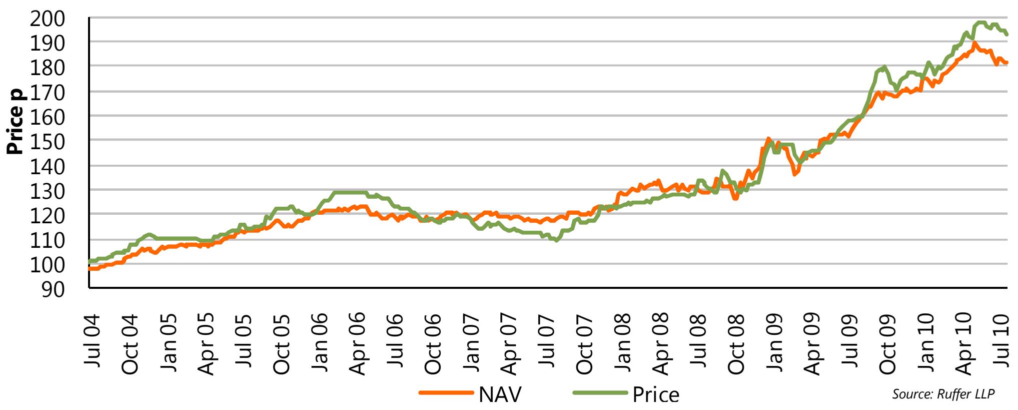
**includes re-invested dividends* *Source: Ruffer LLP*

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 and 3 Mar 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



Investment report

The net asset value of the company currently stands at 181.68p, a fall of 0.5% during the month. The share price fell 2.3% in July and the premium over NAV was 6.23%. The principal currency exposures at the end of July were 66% sterling and 25% US dollar.

The bounce in the stock market did nothing for the portfolio, as our defensive positions failed to hold their ground with the stock market rally.

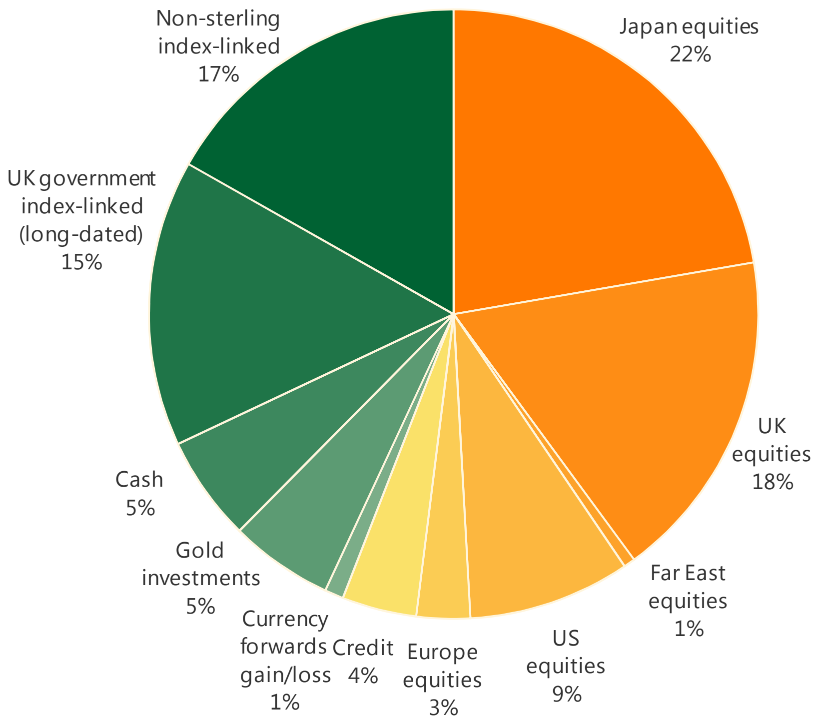
The equities themselves were fine, with the UK holdings showing fairly uniform strength. US and European holdings were generally favourable in local currency, but rising sterling held them back when translated back into sterling. Index-linked cost us, in America because of the weak dollar and in the UK because of… for reasons which I shall go into in a later paragraph. We were also hit by the weakness in gold, which while not severe, closed at the end of June at a high point and there has been a retreat, not amounting to much more than 0.5% of the portfolio from that level.

Now for the interesting stuff! We wrote at the end of last month that we had been purchasing high-beta Japanese financial stocks quite hard that month; such was the shortage of news that the magazine 'The Week' featured this fact as from the voice of an expert. I wouldn't really put it quite like that, but in an investment world which is distinctly boggy, the opportunity in Japan remains a rare land mass which will determine, in my view, whether or not the investment company has a third good year. Certainly, after a good period at the beginning of 2010, which was a fluke not so much in the sense of reckless calls, so much as the currency markets doing what might rationally be expected of them, the performance has given way to a rather heart-sinking sideways-to-down trend. 22% of the portfolio is represented by Japanese equities. More startlingly, perhaps, over 40% of our equity exposure is now held there. The moral is that we had better be right.

On a more perplexing note, our large positions in index-linked gilts have been under the cosh, although, it has only cost the portfolio about 0.2%. The sell-off in index-linked has been for two wholly unconnected reasons. The first is that the deflationary forces in the world have become more apparent in the last few weeks. This is no reason to sell index-linked, since it is the onset of deflationary problems which encourage the central authorities to continue their quantitative easing, and it is this second dynamic – a result caused by the first – which brings about the inflation. So, no problems there. More to the point has been the adoption by the authorities of a CPI measure for the measurement of inflation adjustment, rather than RPI. The effect of this is to lower future government commitments, since CPI gives for arithmetical reasons too clever for those of us whose knuckles drag along the ground, a lower reading than RPI. The worst case would be a unilateral substitution of the less generous CPI for RPI. Under the trust deed, they are entitled to do just this, but it is hard to see that the resultant uncertainty, and damage to the *verbum meum pactum* aspect of debt promises by the administration would make it worthwhile. If it happened, it would probably knock around 5% off the value of a ten year index-linked gilt, a gilt which has already dropped by around half that amount. The other danger is a less pressing one, which is that, going forward, new CPI index-linked bonds will be issued, and they will fit the glove of CPI liabilities more absolutely than the old RPI bonds. Thus, perhaps, the old-style bond (ie, the ones that we have now) might trade at a discount to true value to reflect this factor. Our feeling is to do nothing on this, but it is rather a bore.

It was a quiet month for deals. On the sales side, we used the slight rally in the euro to finish selling our Raisio and to take a quick profit in our Gagfah. We used the sharp rally in BT to reduce the holding, which is still a good size in the portfolio. We sold a proportion of our BP shares after the rise, to invest in a Japanese exploration company which had fallen even faster than BP, without any obvious problems. It has got off to a good start. Meanwhile we continued to purchase Japanese financials with £1.5m in Daiwa, the broking house, and Mizuho, which has had a round of money raised to strengthen their Tier 1 capital.

Portfolio structure as at 30 Jul 2010



Source: Ruffer LLP

Ten largest holdings as at 30 Jul 2010

Stock	% of fund
1.25% Treasury index-linked 2017	7.9
US Treasury 2.375% TIPS 2025	5.6
US Treasury 1.625% TIPS 2015	4.8
1.25% Treasury index-linked 2055	4.6
Ruffer Illiquid Strategies Fund 2009 Ltd	4.0
US Treasury 1.625% TIPS 2018	3.9
Vodafone	3.5
CF Ruffer Baker Steel Gold Fund	3.3
CF Ruffer Japanese Fund	2.7
1.875% Treasury index-linked 2022	2.7

Five largest equity holdings* as at 30 Jul 2010

Stock	% of fund
Vodafone	3.5
Kroger	2.7
NTT Data Corporation	2.6
T&D Holdings	2.5
BT Group	2.2

**Excludes holdings in pooled funds*

Source: Ruffer LLP

NAV valuation point	Weekly – Friday midnight Last business day of the month
NAV	£178.1m (30 Jul 2010)
Shares in issue	98,042,672
Market capitalisation	£189.2m (30 Jul 2010)
No. of holdings	50 equities, 7 bonds (30 Jul 2010)
Share price	Published in the Financial Times
Market makers	ABN AMRO Cazenove Cenkos Securities 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 funds exceeding £8.1bn on an absolute return basis, including over £3.2bn in open-ended Ruffer funds (as at 30 July 2010).

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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