LF Ruffer Diversified Return Fund - £

Research Note

29 Dec 2023

Alpha RelativeValue Diversifier RiskOff

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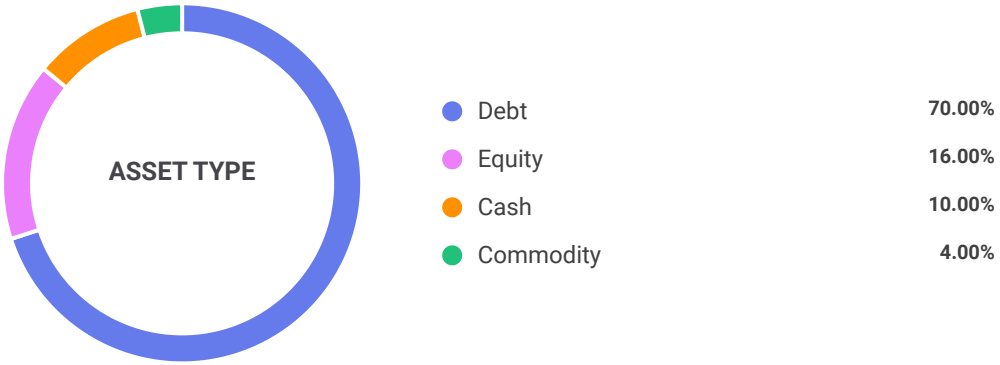
1. Description

SUMMARY

Ruffer Investment Management ('Ruffer') was founded in 1994 by Jonathan Ruffer. It manages over £20bn AUM, all adhering to the same firm philosophy of protecting in down markets and growing value over the long-term, harnessing the power of compounded returns. The investment objective is, 'not to lose money in any 12 month period and generate positive returns in all market conditions.'

Lead FMs are Duncan MacInnes and Ian Rees. MacInnes joined Ruffer in 2012 having previously worked at Barclays following graduation from Glasgow University in 2007. Rees also joined the firm in 2012 from graduating at Bath University. The RDR strategy was Ruffer's first daily dealing vehicle to express the Ruffer philosophy and launched in September 2021. AUM has risen rapidly since then to well over £1bn.

This is a daily priced version of the Ruffer Total Return ('RTR') fund. While it follows the RTR's macro, absolute return multi-asset approach, the portfolio does have a slightly different shape to it given the higher liquidity requirements. The fund won't hold other Ruffer funds with weekly dealing liquidity windows as well as avoiding in-house illiquid strategies which RTR has used such as their multi-strategy fund (no longer held). Derivatives are used such as puts within high yield. All derivatives are now run in-house by a dedicated team (previously this was outsourced or utilised via the multi-strategy fund). Turnover for the year to 1st October 2022 was c. 113%; the fund can liquidate 96% of its holdings in 1 business day.



INVESTMENT PROCESS

The process follows the firm's philosophy, creating an asymmetric portfolio profile between equities and bonds. It is designed to work best in down markets which the RTR strategy has demonstrated over time. That 'left tail' risk agenda is paramount to the fund and firm's philosophy and this is demonstrated in the portfolio's construction.

The fund is macro driven with an active bottom-up selection process. This macro view is embedded in the firm's risk averse culture, with a cautious, if not bearish view over the longer-term. This is reflected in their portfolio construction and the fund's ability to perform well in periods of falling markets.

At the heart of the the process is a top-down view, identifying key risks and opportunities, with a core aim to blend protective and growth assets. The portfolio is stress tested against scenarios over 100 years with correlation analysis between asset classes. This then filters into the bottom-up, fundamental analysis stage with an unconstrained approach to idea generation across the research team, sourcing ideas to best populate those macro views. The research team consists of over 30 analysts covering both macro and micro security selection. The fund will also look for 'special situation' ideas, i.e. ideas that can generate returns under any circumstance.

The final stage covers portfolio construction and incorporates risk management as well. Derivatives are deployed largely to achieve capital protection. The fund does not engage in short selling. A normal equity holding size is 2% of the portfolio value; this will vary according to liquidity but with conviction could rise to 5%. Holdings in liquid, AA or AAA-rated securities (e.g. gilts) may exceed this amount. ESG is also considered as part of the due diligence security process.

This fund differs from the RTR fund mainly through its alternatives exposure. It seeks to replicate the RTR's alternatives exposure in other ways, for example, when RTR invested in bitcoin, the RDR fund invested in 'bitcoin proxies' being equity names. It also differs in use of derivatives - while RTR held in the illiquid Ruffer Multi-Strategies fund for protection (NB it no longer does), RDR uses 'vanilla' long put options to express being 'short' equities (i.e. long S&P put or single name puts) or long CDS/CDX on credit, for example. When inflation-linked bonds fell earlier in 2022, the fund actively offset this with swaptions, for example. Cash has always been managed actively too for both RDR and RTR especially when options are expensive.

2. Intelligence

BEHAVIOUR

This approved security has been through a full Collidr Research quantitative and qualitative review process. The process is engineered to provide an insight into the portfolios expected behaviour under various market conditions. The RDR fund has been assigned a relative value strategy behaviour based on its unconstrained, absolute return approach. low beta to equities and low correlation to traditional asset classes. Performance may be expected to underperform markets in strongly rising conditions, but to outperform in sideways and down-trending markets. From our analysis, the type of behaviour expected under various conditions is as follows vs a 50/50 global equity/fixed income Index:

(Note: the fund has a short track record which can distort the behavioural analysis)

Rising Markets: Market performance - Our regime analysis suggests that the fund is statistically insignificant from a volatility normalised risk-adjusted basis. Actual performance suggests that the firm's long-term cautious stance on markets is reflected in the portfolio's construction, and that the fund (as per the longer-term record of the RTR fund) tends to underperform multi-asset peers in sustained rising markets. This was evident for RDR in 2021 despite the style rotation, lagging both the comparator and global equities.

Falling Markets: Outperformance - Our regime analysis suggests that the fund outperforms the comparator from a volatility normalised risk-adjusted basis driven by its asymmetric profile. In performance terms, the fund has demonstrated greater resilience in recent down market periods, especially through 2022 generating a positive return for the full year. That reflects its ability to profit from risk-off scenarios, benefiting from its hedged exposure to equities, bonds and being long volatility. In 2022, it reduced its equity exposure to its lowest ever (c.15%), helping to dampen losses.

Sideways Markets: Market performance - Our regime analysis suggests that the fund is statistically insignificant from a volatility normalised risk-adjusted basis.

USAGE

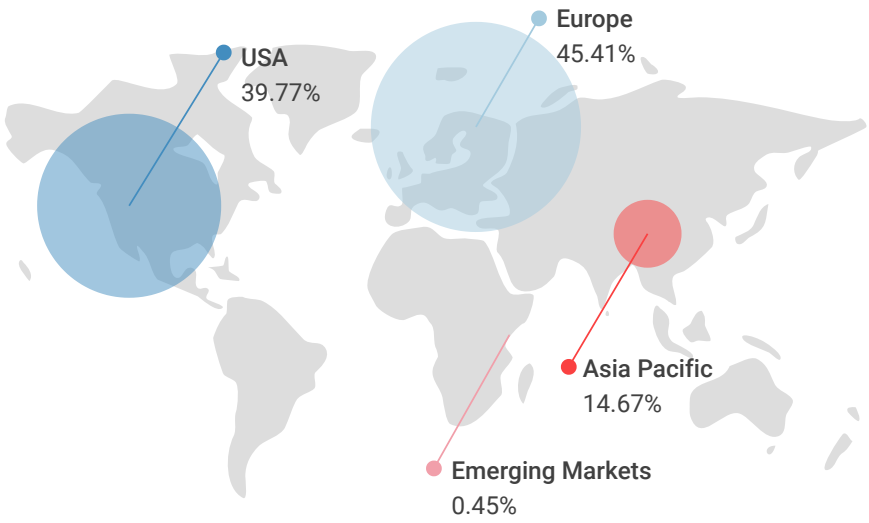
Diversifier - This can be used as a diversifier within a multi-asset portfolio largely to offer downside protection through its asymmetric, left tail risk focused portfolio construction. It offers exposure to quality equities and investment grade bonds including inflation-linked bonds as well as to gold (equities). The fund demonstrated its resilience in 2022 vs global equities and bonds, behaving as expected in these current volatile and falling market conditions. The risk with the strategy is that may not capture as much of the upside in rising markets as other, more equity focused strategies. Additionally, the derivatives trading mandate may magnify leverage and mark-to-market risk if not managed properly in-house. More recently, the focus to replicate the more illiquid RTR holdings with liquid equivalents can be a potential concern, such as when the RDR fund introduced bitcoin proxies, given that RTR introducing bitcoin itself may have been seen as a risk.

APPLICATION

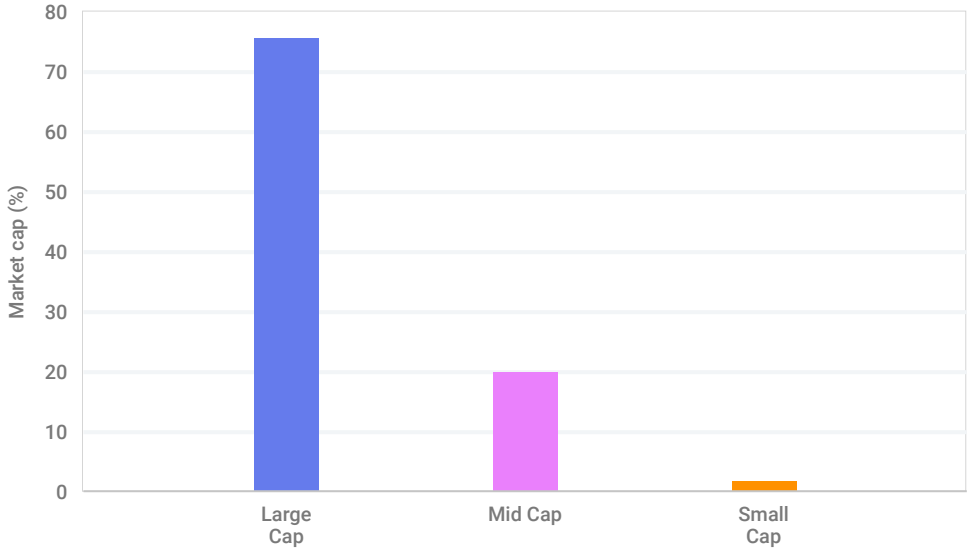
Alpha - The focus on macro-driven opportunities with bottom-up security selection is how alpha generation is derived. It uses derivatives for protection purposes more so than generating alpha. Alpha is generated by the fund's asymmetric profile, withstanding down markets, and looking for upside opportunities over a cycle. Alpha is best demonstrated in down markets, as witnessed in 2022, where the fund's exposure to equities fell to its lowest ever (15% of the fund), and benefited from short exposure to equities, bonds and long volatility (VIX) exposure. The longer track record of the RTR fund suggests that it lags multi-asset peers in sustained rising markets (i.e. pre-2020 & post covid-19 to end 2020) given its 'pinned-down' cautious house view of the global economy.

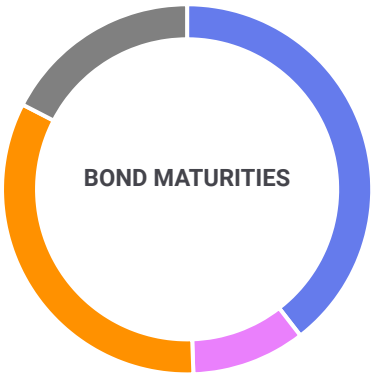
3. Aggregated Net Exposure

Regional Exposure



Equity Market Cap (%)





Short Term (1-3 yr)	39.51%
Intermediate Term (3-...	9.95%
Long Term (>10 yr)	33.11%
Unreported	17.43%

Investment Grade	100.00%

4. Overall Performance

LF Ruffer Diversified Return I GBP Acc Multi-Asset Benchmark(FI/EQ) - 50/50

GROWTH (%) - OVER 1 YEAR 2 Jan 2023 - 29 Dec 2023

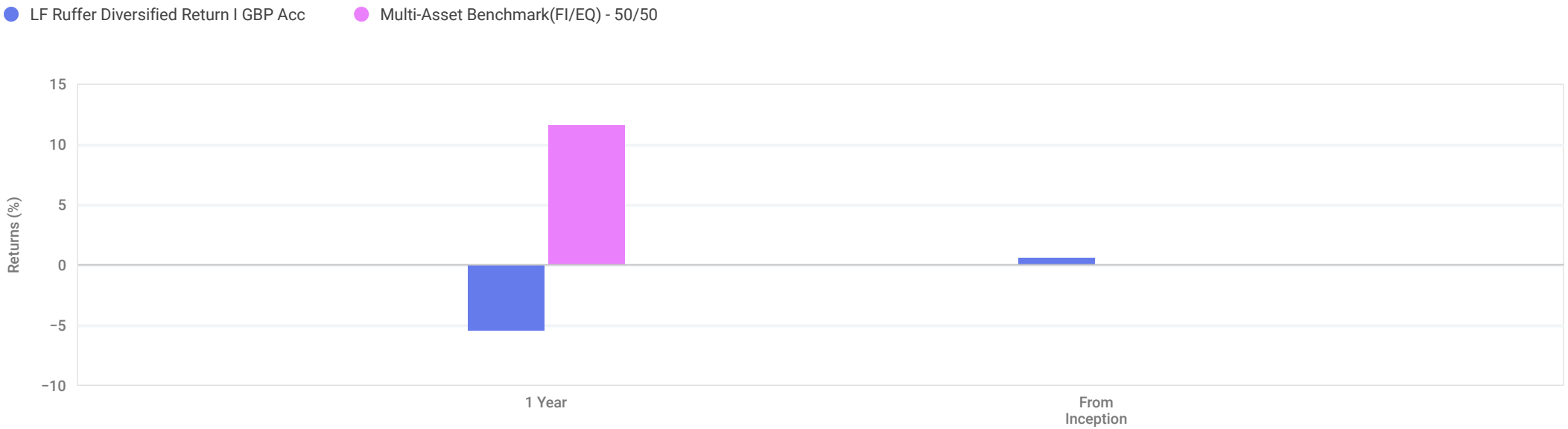
GROWTH (%) - FROM INCEPTION 16 Sep 2021 - 29 Dec 2023

DRAWDOWN (%) - OVER 1 YEAR 2 Jan 2023 - 29 Dec 2023

DRAWDOWN (%) - FROM INCEPTION 16 Sep 2021 - 29 Dec 2023

The value of investments and the income from them can go down as well as up and past performance is not a guide to future performance.

5. Returns



MONTHLY BREAKDOWN AND YEARLY TOTALS (%)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	YEAR
2023	-0.64	-1.66	0.38	-1.49	-3.06	-0.95	0.88	-0.91	-0.30	-1.00	1.55	1.78	-5.40
2022	1.52	2.17	1.49	-0.53	0.23	-4.62	-0.18	1.82	0.37	0.73	1.52	0.72	5.17
2021									0.35	2.37	-1.29	0.39	1.80

ANNUALISED ROLLING RETURNS (%)

	1 YEAR	INCEPTION
	-5.44	0.56
	11.57	0.00

CUMULATIVE RETURNS (%)

	1 YEAR	INCEPTION
	-5.40	1.28
	11.48	0.01

6. Annualised Analytics

LF Ruffer Diversified Return I GBP Acc Multi-Asset Benchmark(FI/EQ) - 50/50

PERFORMANCE - OVER 1 YEAR

2 Jan 2023 - 29 Dec 2023

RETURNS (%)	-5.44	11.57
VOLATILITY (%)	5.57	6.50
ALPHA	-0.14 *	
BETA	0.16 *	1.00
CORRELATION	0.28 *	1.00
SHARPE RATIO	-1.73	1.01
SORTINO RATIO	-2.38	1.52
MAX DRAWDOWN (%)	-9.23	-4.37

*Calculated over a 3 year period where history permits.

PERFORMANCE - FROM INCEPTION

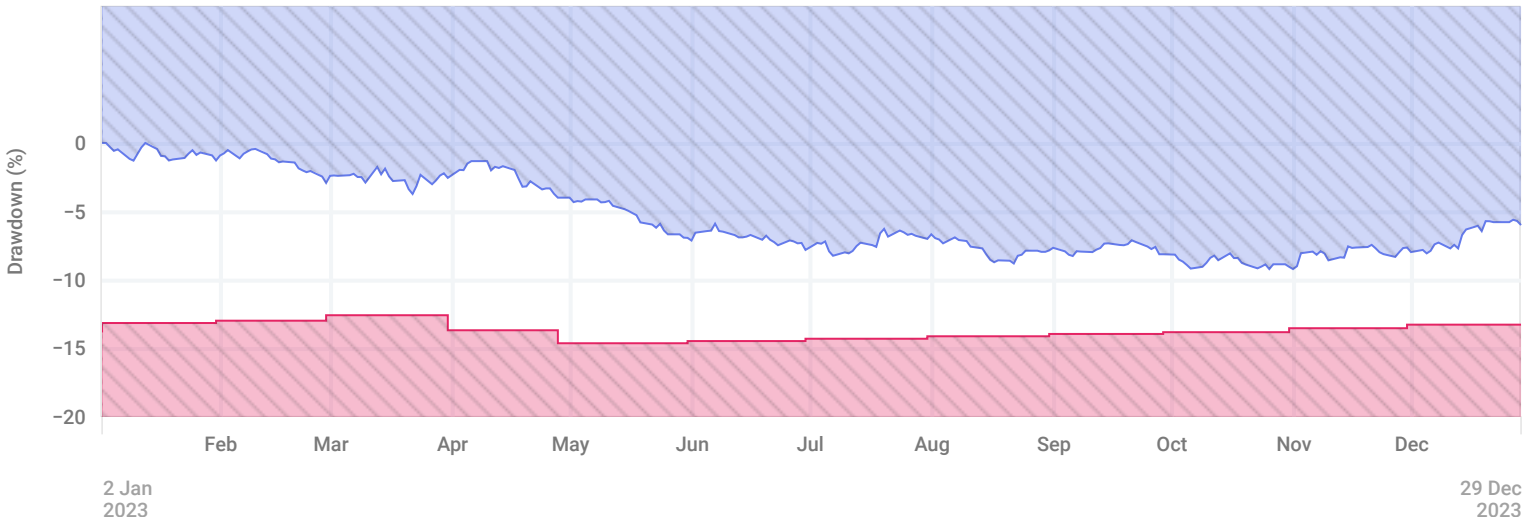
16 Sep 2021 - 29 Dec 2023

RETURNS (%)	0.56	0.00
VOLATILITY (%)	6.65	8.32
ALPHA	-0.14 *	
BETA	0.16 *	1.00
CORRELATION	0.28 *	1.00
SHARPE RATIO	-0.33	-0.33
SORTINO RATIO	-0.47	-0.46
MAX DRAWDOWN (%)	-9.23	-15.49

*Calculated over a 3 year period where history permits.

SIMPLE STRESS TEST DRAWDOWN (%)

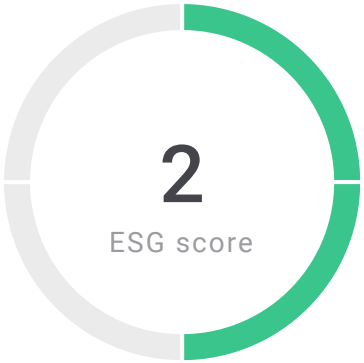
2 Jan 2023 - 29 Dec 2023



Stress test notes

The chart shows the calculated drawdown over the last year. The Review Point is the fund intervention point. Any drawdown above this line indicates a typical drawdown in a normal market cycle. Should the drawdown hit the review point, then this indicates that market conditions may be abnormal. This is the point that we would consider taking immediate action for an extreme market event.

7. ESG Score



Collidr ESG classification: We class the fund as '*General'* – Where there is no formal ESG or ethical fund mandate and it has no remit to score well from an ESG basis. The fund strategy may score well from and ESG perspective due to its investment process, while not required to apply ESG directly into the strategy or approach.

Fund ESG Integration Score Guide:

1. No clear approach to ESG factors as part of the investment process
2. ESG considerations are acknowledged by the manager but not as a formal part of the investment process
3. Inclusion of ESG factors into the investment process but not fully engaged with companies or parties
4. Inclusion of ESG factors into investment process and fully engaged with companies or third parties

A progressive ESG approach where the fund does incorporate ESG criteria into the investment process, but does not have a mandated approach nor has a proprietary ESG scoring policy in place. Given this, we issue the fund a Collidr Research integration ESG score of 2.

- Stated ESG policy & Signatory to UNPRI and/or others? *Yes*
- Dedicated ESG Team? *Yes*
- Use external ratings data? *For reference - MSCI Sustainanalytics*
- Use proprietary rating methodology?*No -A final ESG 'recommendation' goes into a qualitative report for a company/security – output is more views on a company's ESG profile. Every company invested in must have a 'yes' re ESG score profile – this can mean either a positive ESG profile or a company has an improving ESG approach but they don't want to have a proprietary score as that is "too black and white".*
- Integration of ESG into process? *Yes, but not a fully integrated approach*
- Light touch/Active engagement/ hard rules? *Active engagement via their ESG team such as in riskier areas like mining*
- Buy or keep holdings with low ESG score? *Yes and can hold non-ESG companies the fund but do work to engage with such companies going forward.*
- SFDR aligned *n/a*
- Signed up to PACTA? *No - signed upto Net Zero Asset Managers Initiative in March 2022 - to define carbon targets by March* 2023

8. Disclaimer

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