



What does inflation mean for DC investors?

IAPF Summer Conference - Marketing Communication

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JOS NORTH
Fund Manager

2 MAY 2024



What does inflation mean for DC investors?

- Higher inflation = positive correlation
- DC - an over-reliance on bonds and equities
- How do schemes find diversification?

Markets think
inflation is
dead and
buried...

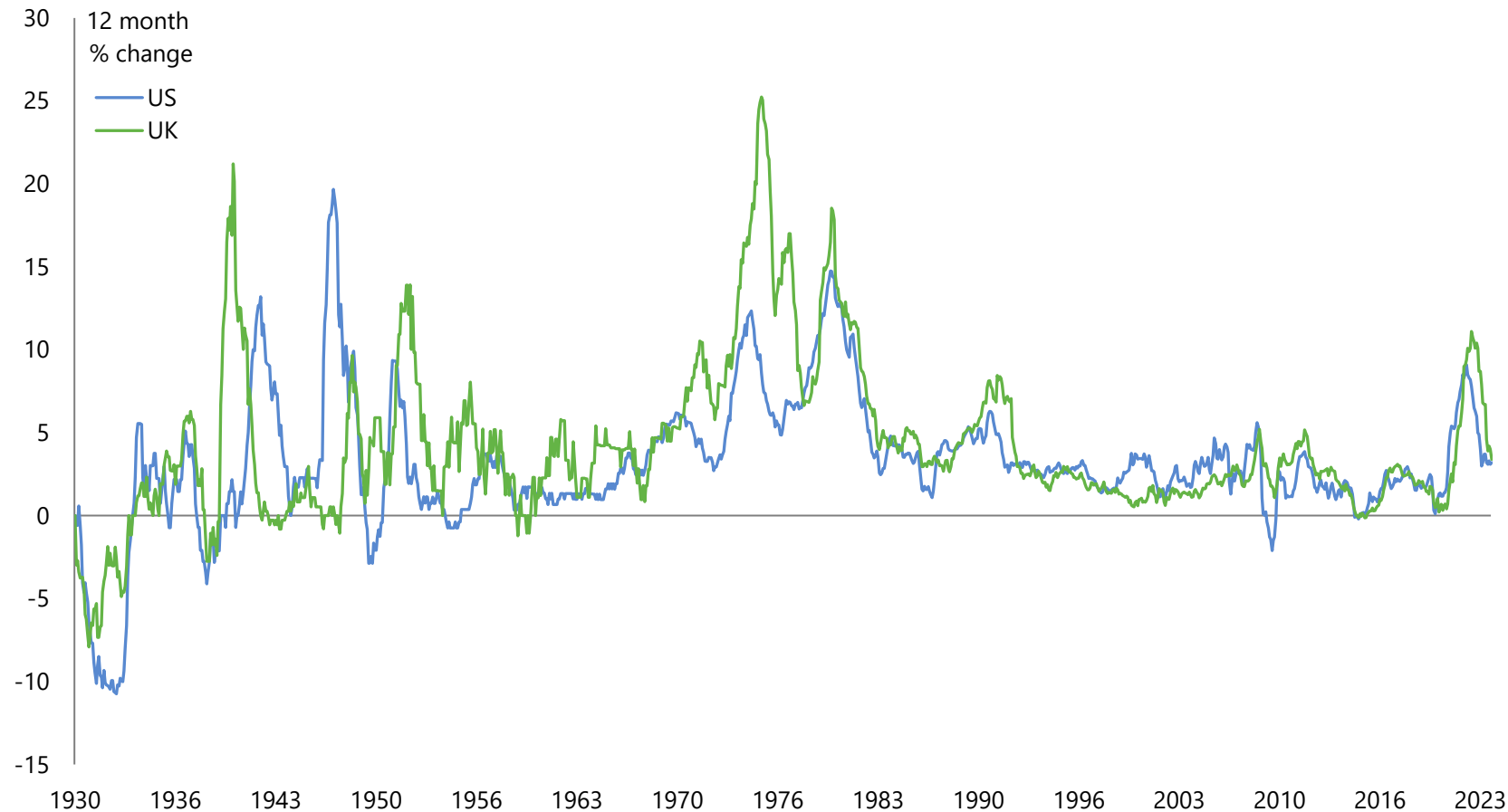


But is it?



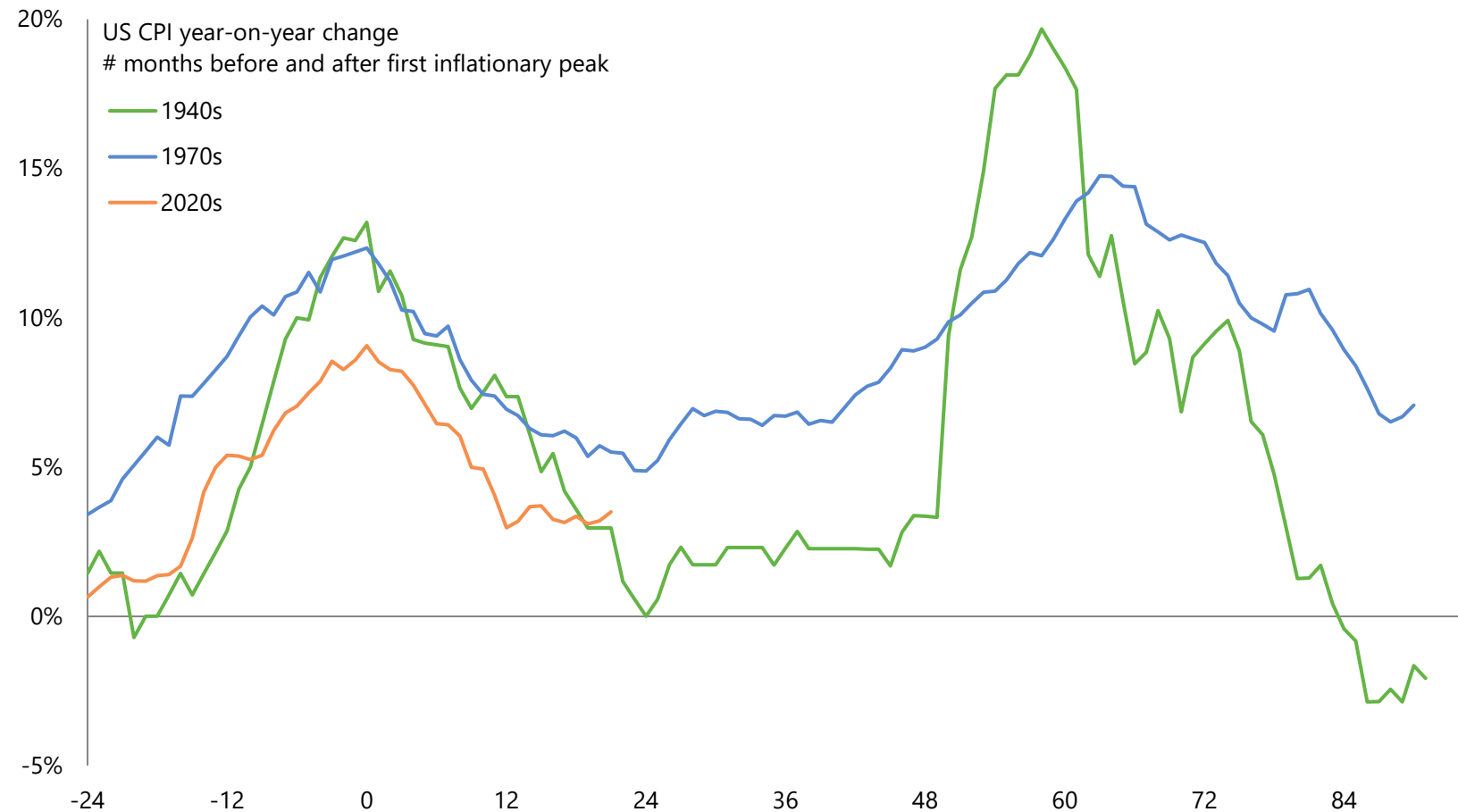
A new era of inflation volatility lies ahead

CHANGES TO SUPPLY, LABOUR AND POLICY ARE LIKELY TO RESULT IN A MORE INFLATION-PRONE REGIME



Inflation tends to come in waves

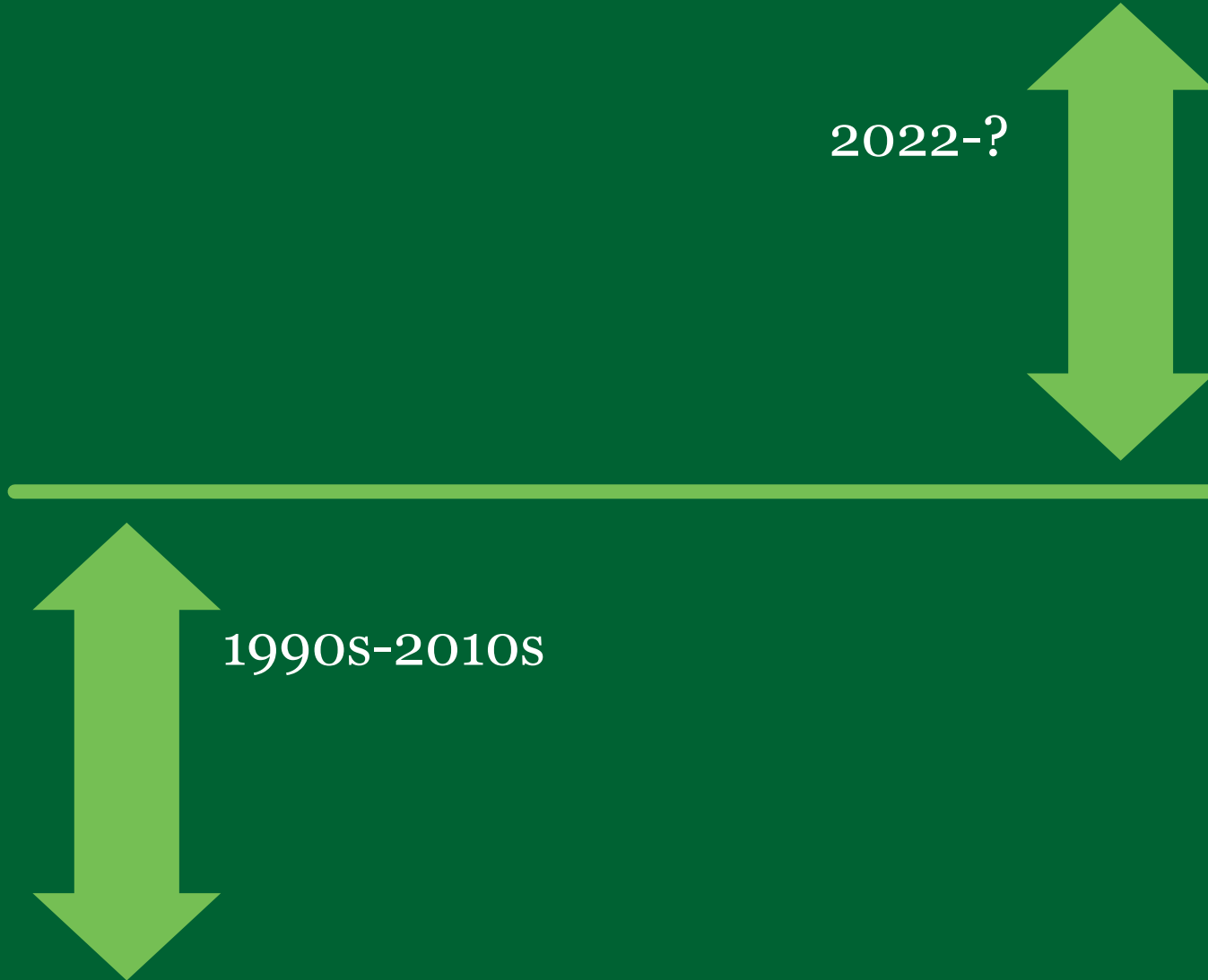
THE SECOND WAVE WAS MORE SEVERE IN THE US IN THE 1940S AND 1970S



Source: US Bureau of Labor Statistics. US CPI year-on-year percentage change. Bottom axis shows months before and after first inflationary peak. Data to March 2024

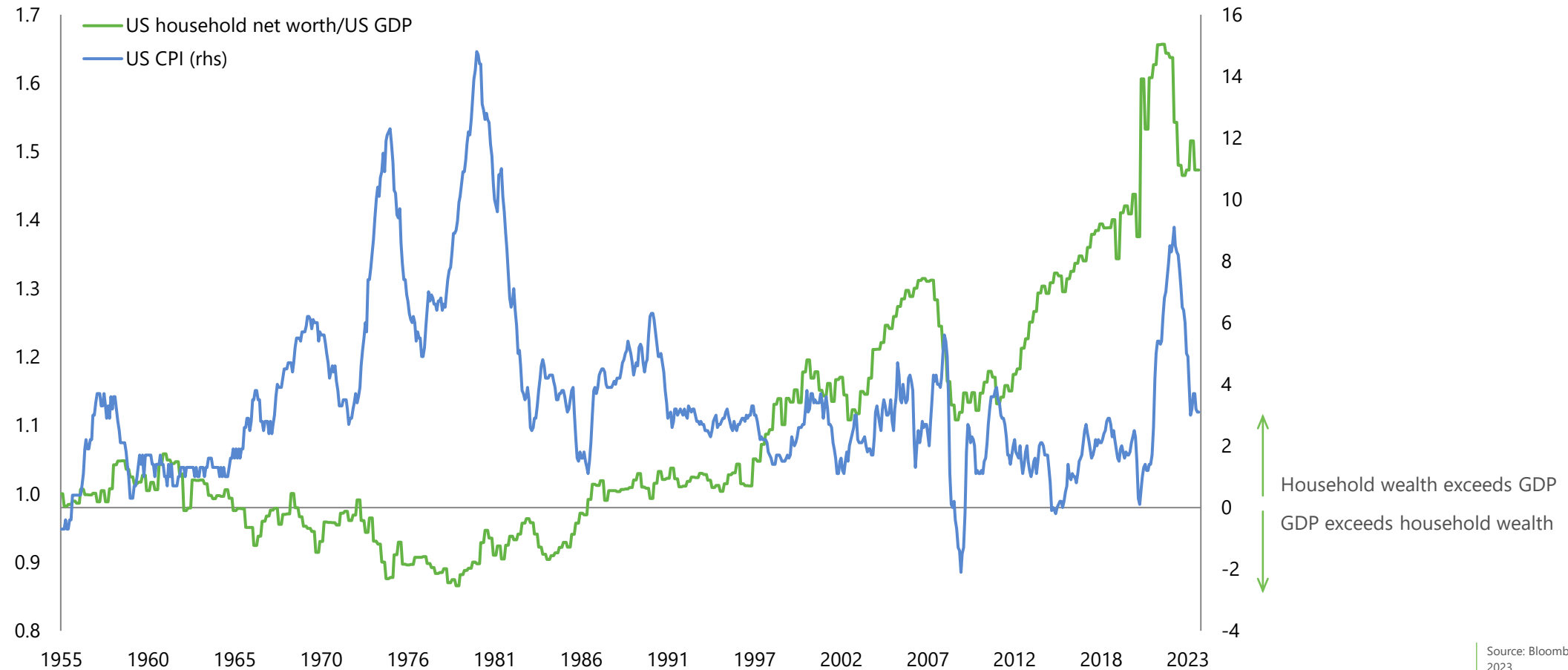
Thesis: inflation regime change

2% inflation



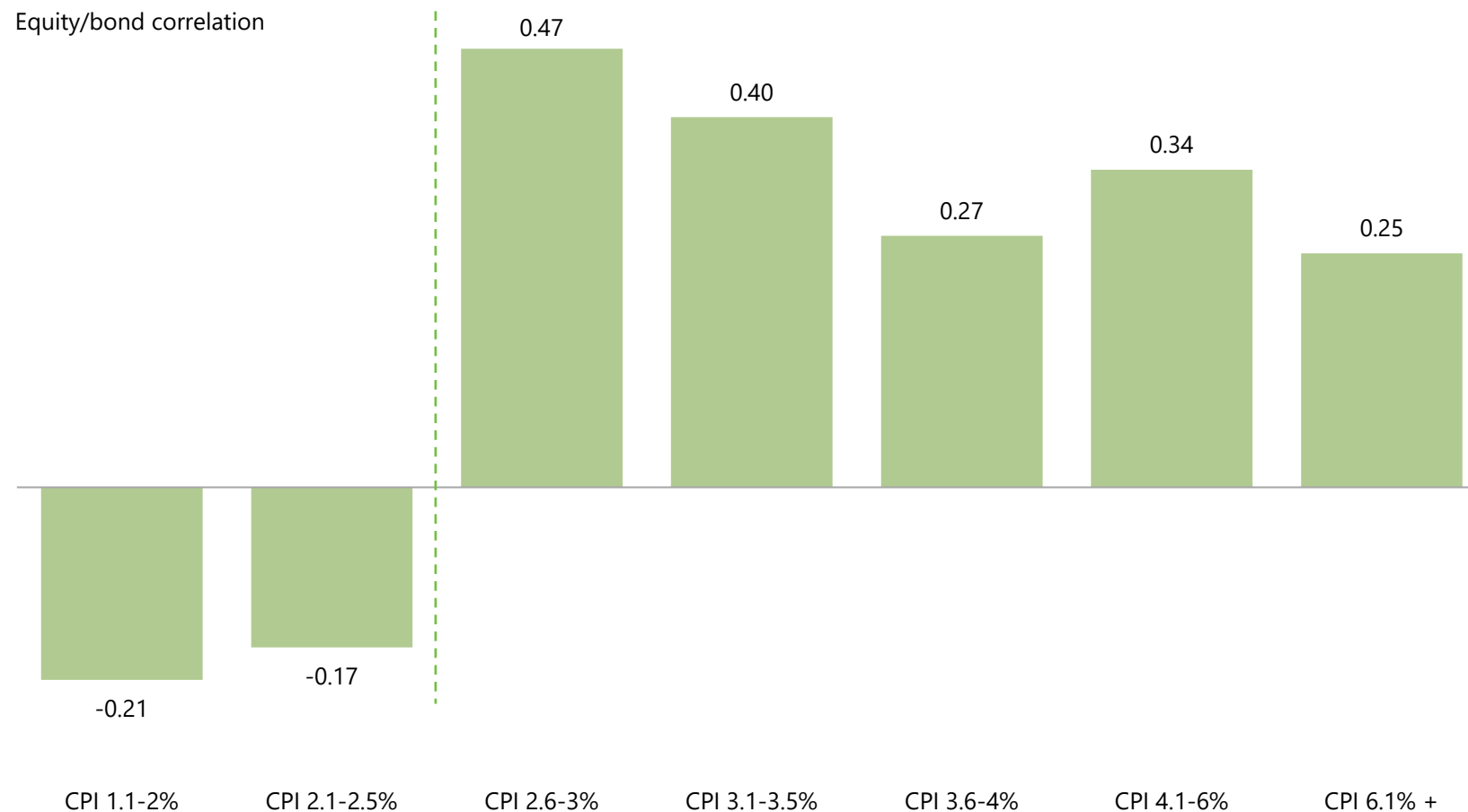
Why inflation matters – asset prices

RISING INFLATION IS A THREAT TO ASSET PRICES, A HOT ECONOMY = A COLD MARKET



Why inflation matters – correlations

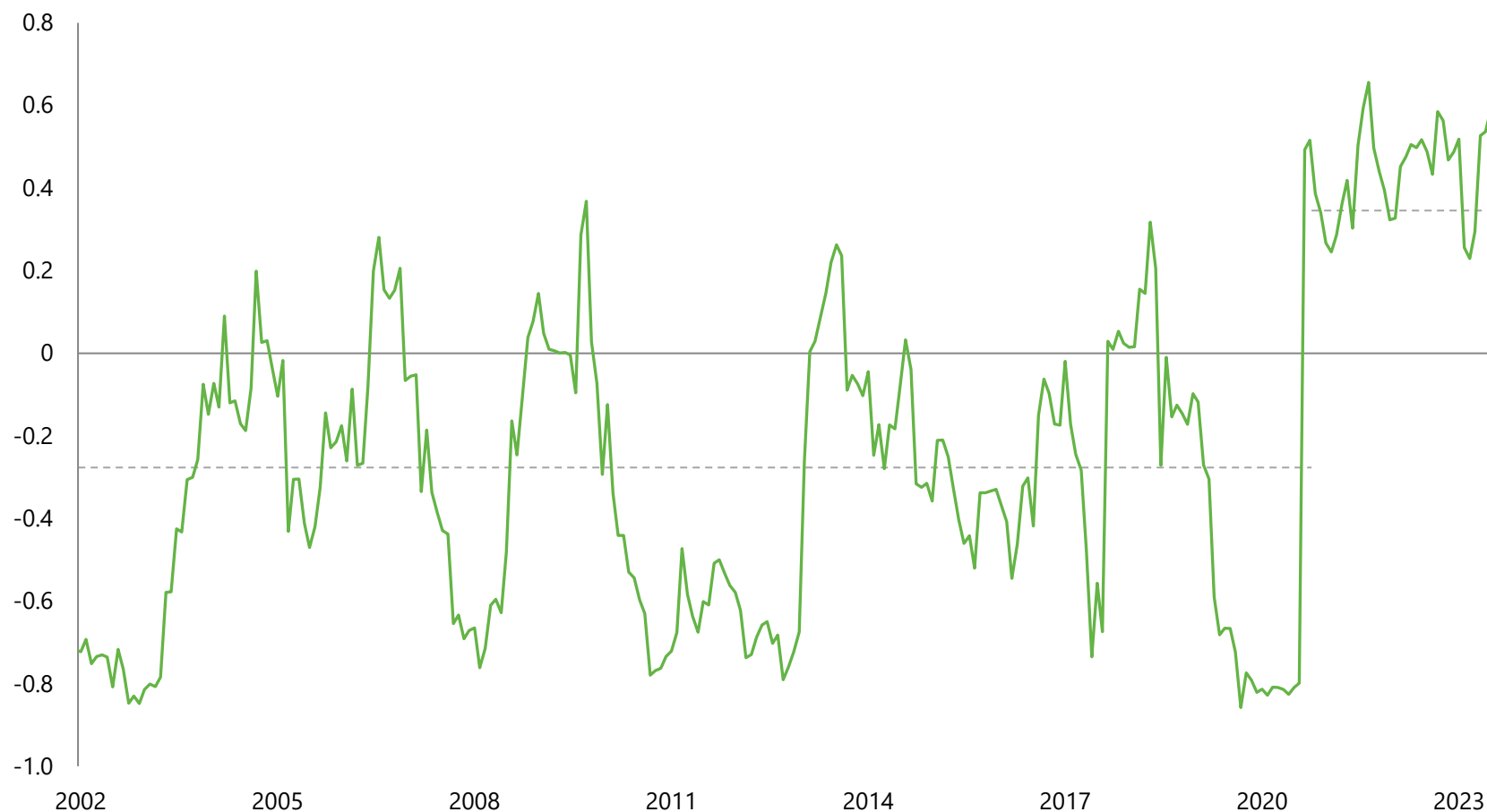
HISTORY SHOW THAT BONDS DO NOT EFFECTIVELY OFFSET EQUITIES IN PERIODS OF HIGHER INFLATION



Source: Bloomberg-Barclays, Shiller, GFD, BLS, Minack Advisors. Rolling 36 month correlation between the one month S&P 500 total return and one month 10 year Treasury return, versus three year average core inflation rate. Data from 1960.

2022, the beginning of the structural shift...

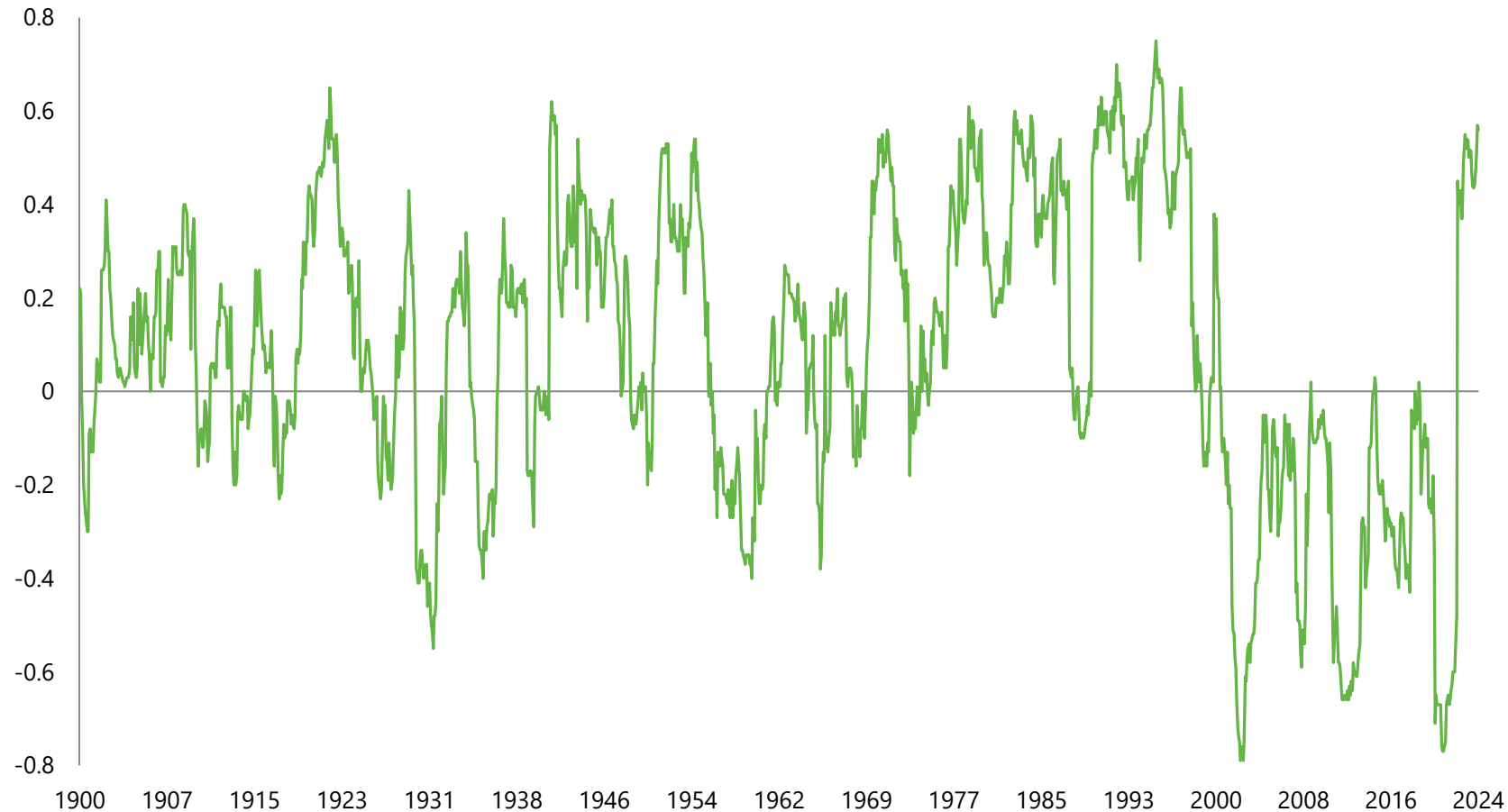
12 MONTH ROLLING CORRELATION OF US EQUITIES AND BONDS REMAINS POSITIVE POST-2022



Source: Bloomberg, data to March 2024.
Monthly total returns of the S&P500 and 10 year US Treasury

...back to something historically “normal”

US BOND-EQUITY CORRELATION SINCE 1900





What does inflation mean for DC investors?

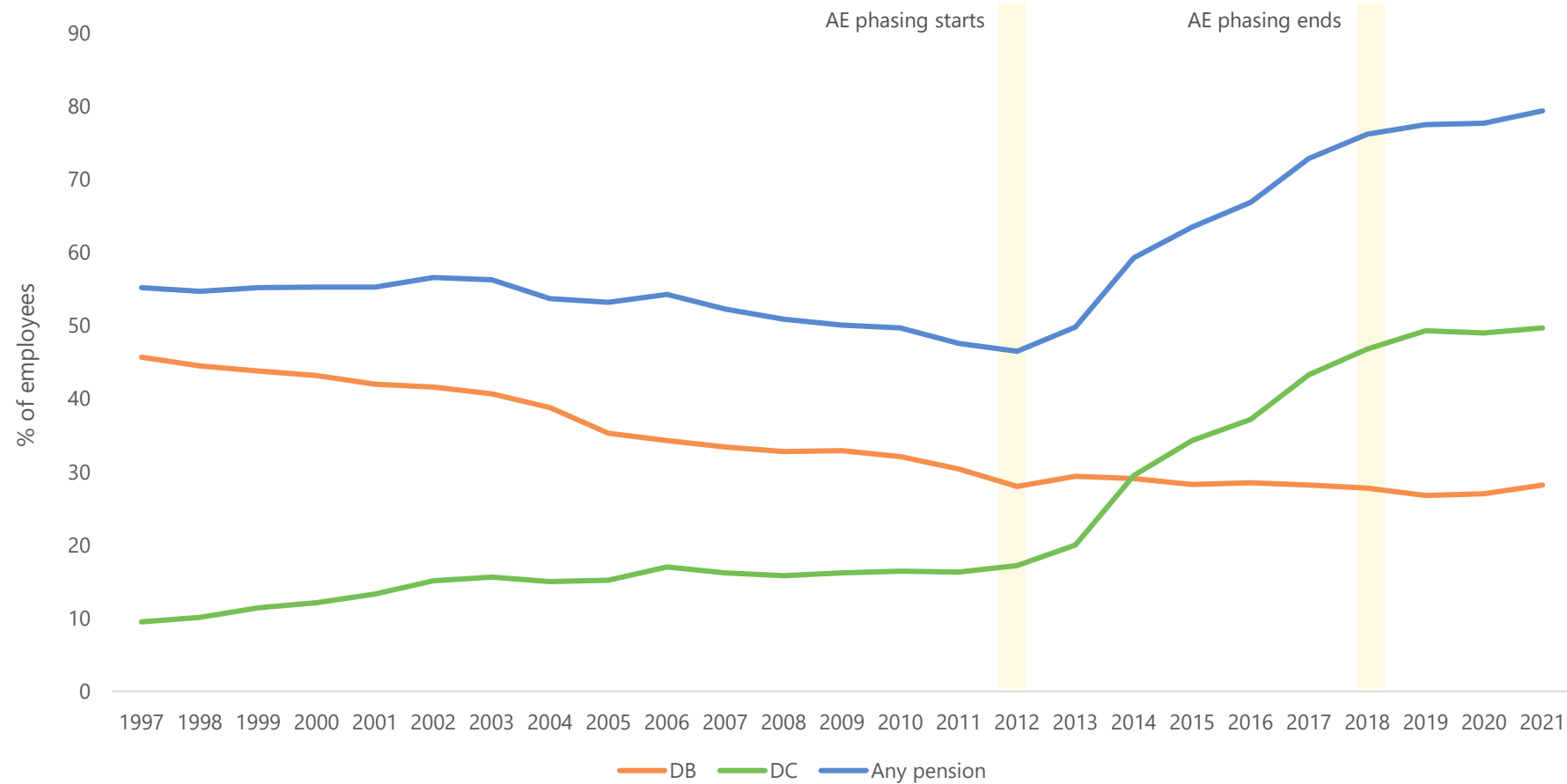
- Higher inflation = positive correlation
- DC – an over-reliance on bonds and equities
- How do schemes find diversification?

“ The structural change from DB to DC pension funds has shifted investment risk from the corporate sector to households ”

Lessons from Efforts to Manage the Shift of Pensions to DC Plans in the US, Australia and the UK, Brown, American Business Law Journal, 2016

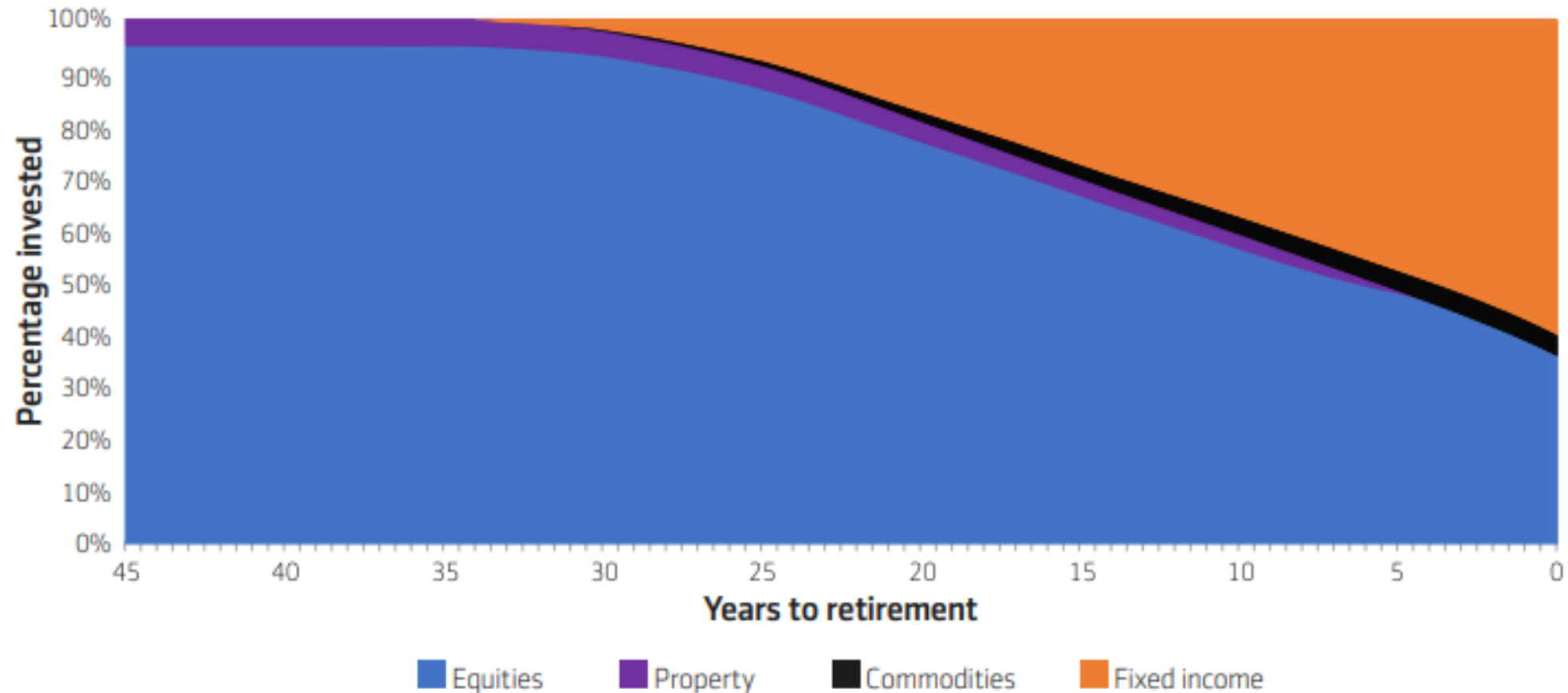
We're waiting for a wave of DC dependant retirees

THE IMPORTANCE OF DC PENSION INVESTMENTS IS GREATER; NOW, MORE THAN EVER BEFORE



... calling for a need to rethink DC investing

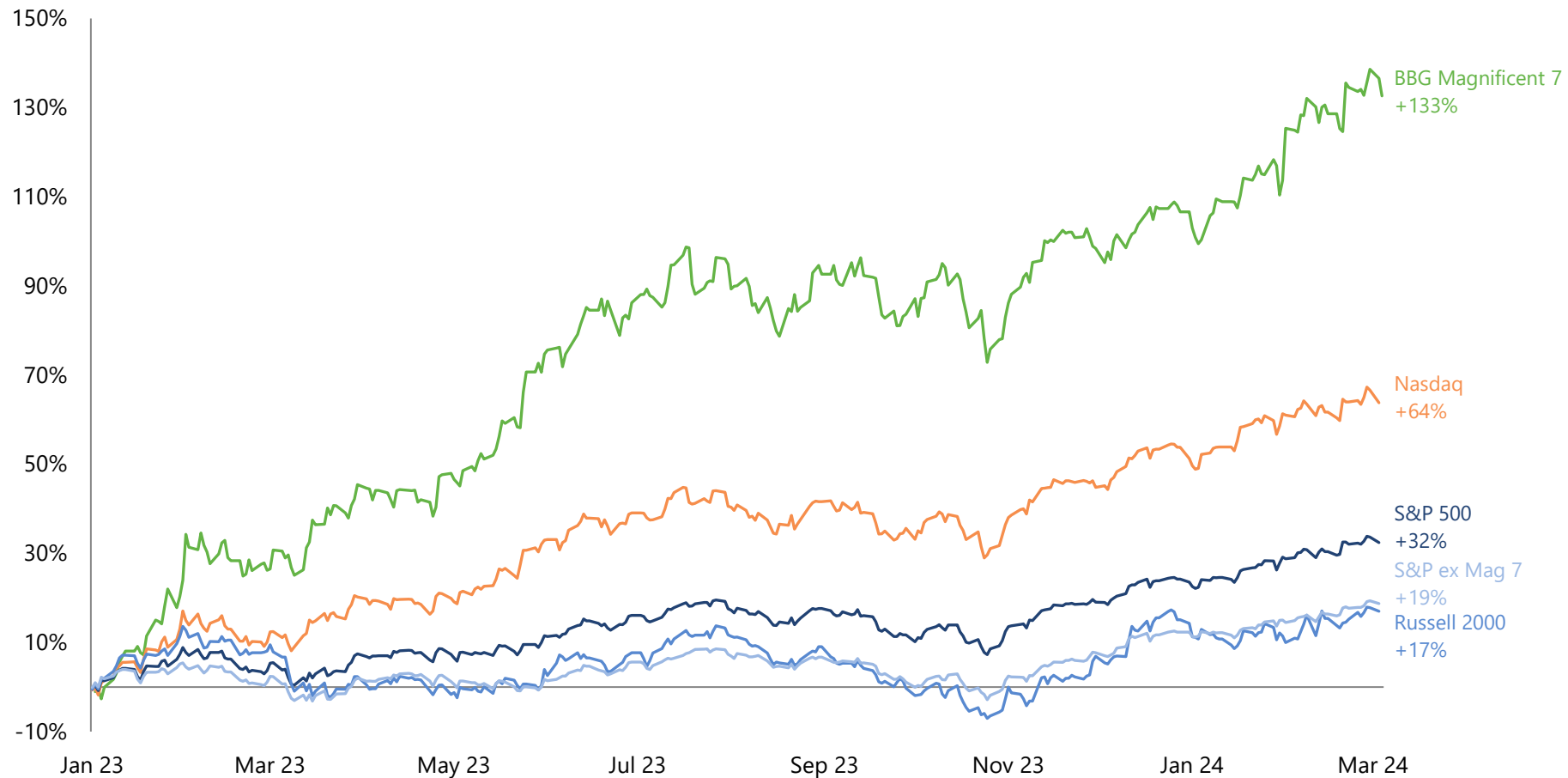
GIVEN THE RELIANCE ON BONDS AND EQUITIES



Source: Representative Master Trust glidepath for a UK DC scheme as one approaches retirement

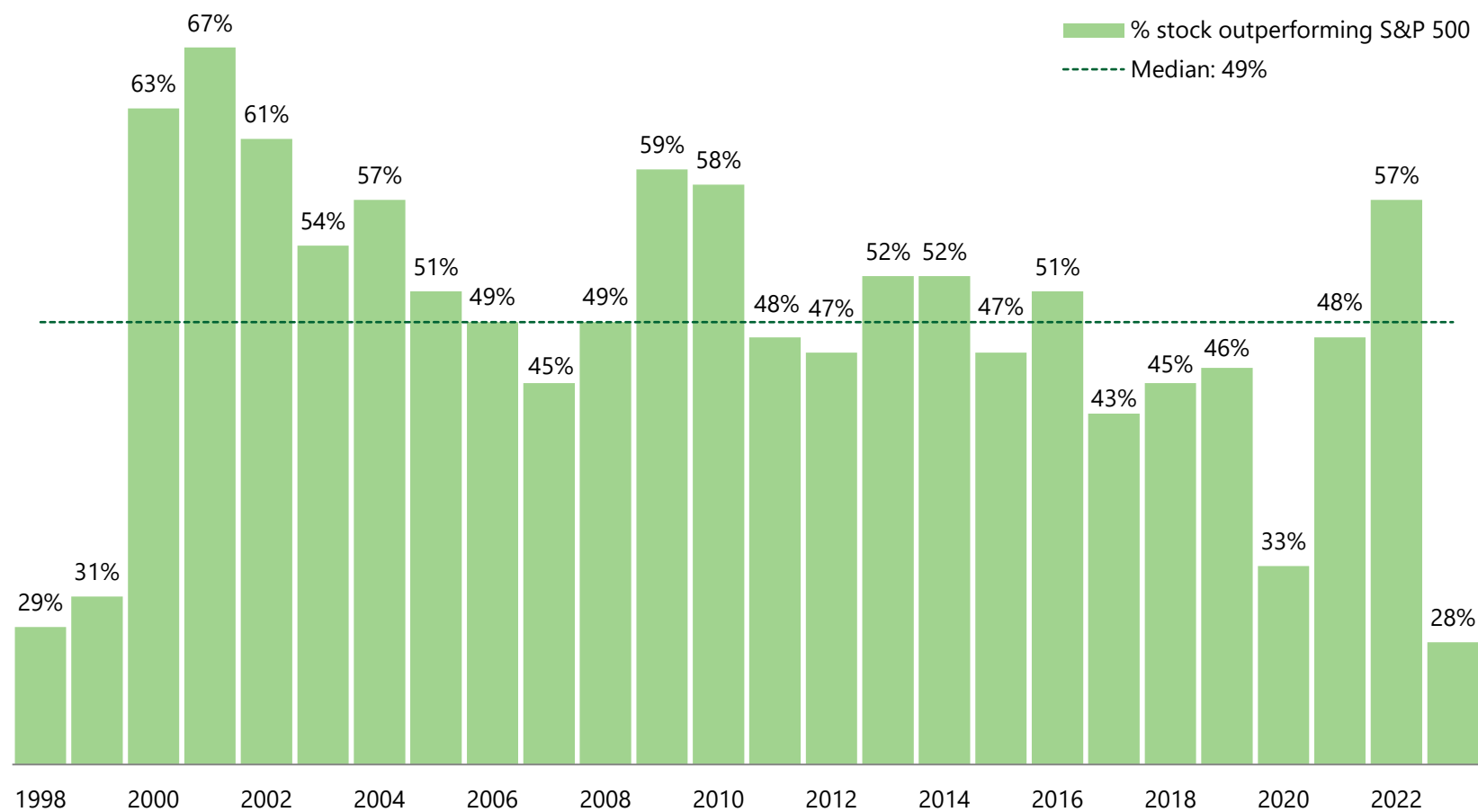
Equity returns have diverged

THE NARROWNESS OF US MARKET STRENGTH LEAVES THE INDEX VULNERABLE SHOULD MEGA TECH FALTER



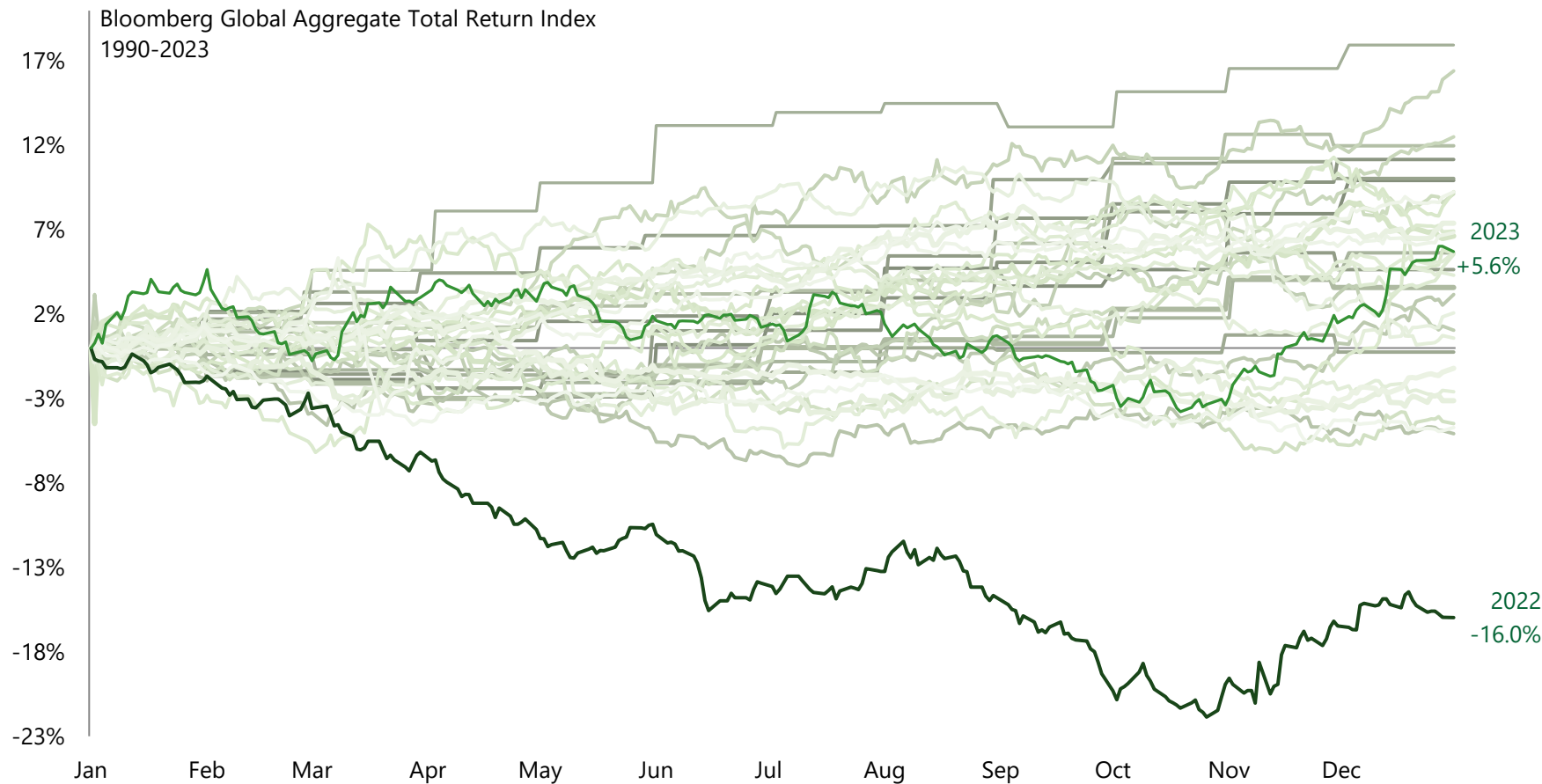
And is now very narrow

WHICH IS NOT A GOOD STARTING POINT FOR PASSIVE EXPOSURE TO US INDICES



So much for 'safe haven'...

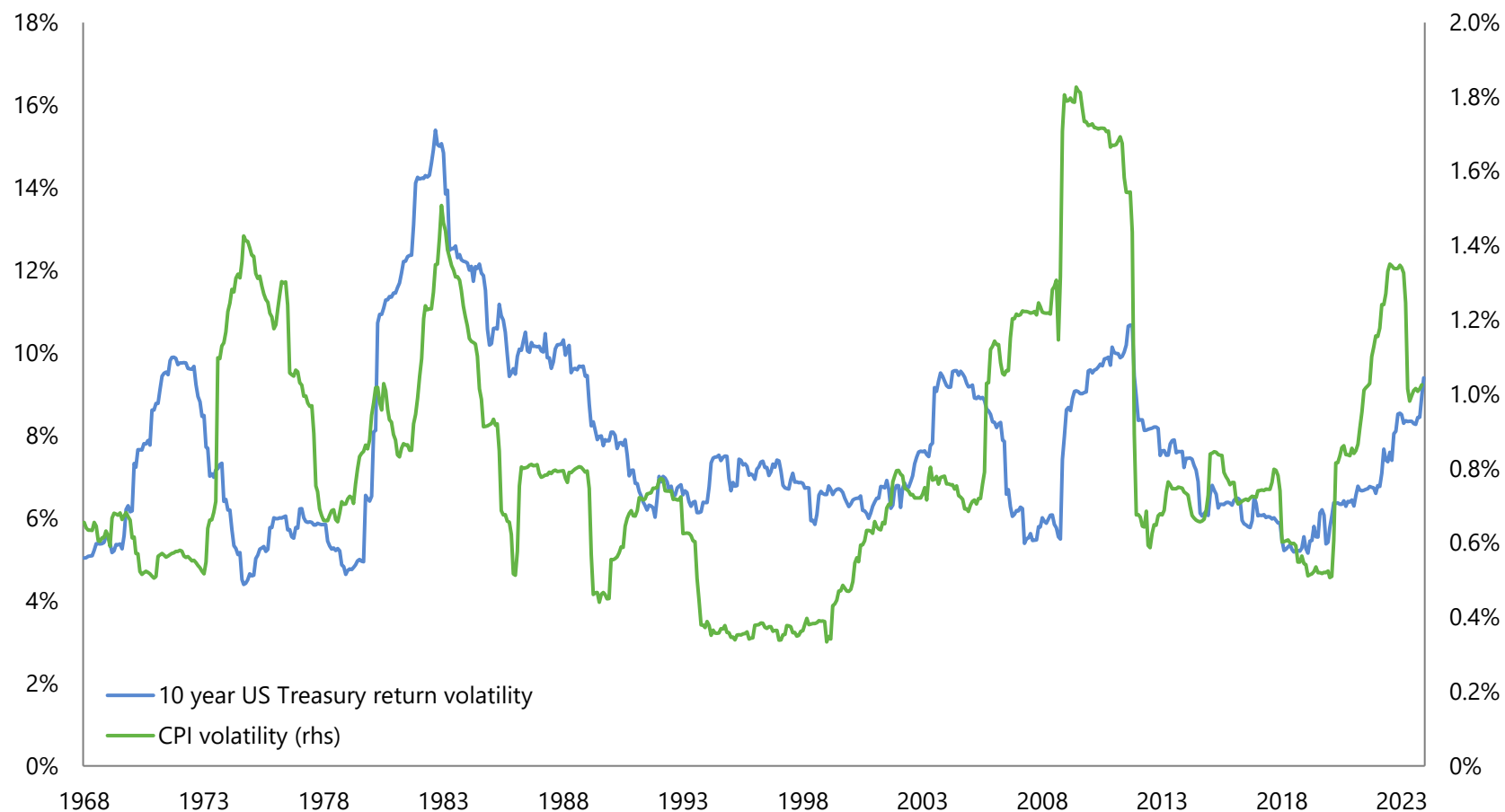
FIXED INCOME ENDURED ITS WORST YEAR IN 2022. AND BOUNCED BACK IN 2023. BUT NO DIVERSIFICATION



S&P 500 Down Years	S&P 500 TR (Stocks)	Bloomberg Barclays US Agg Index TR (Bonds)
1977	-7.2%	3.0%
1981	-4.9%	6.2%
1990	-3.2%	9.0%
2000	-9.1%	11.6%
2001	-11.9%	8.4%
2002	-22.1%	10.3%
2008	-37.0%	5.2%
2018	-4.4%	0.0%
2022	-8.4%	-16.0%

Inflation volatility will also see bond volatility

BOND VOLATILITY FOLLOWS INFLATION VOLATILITY

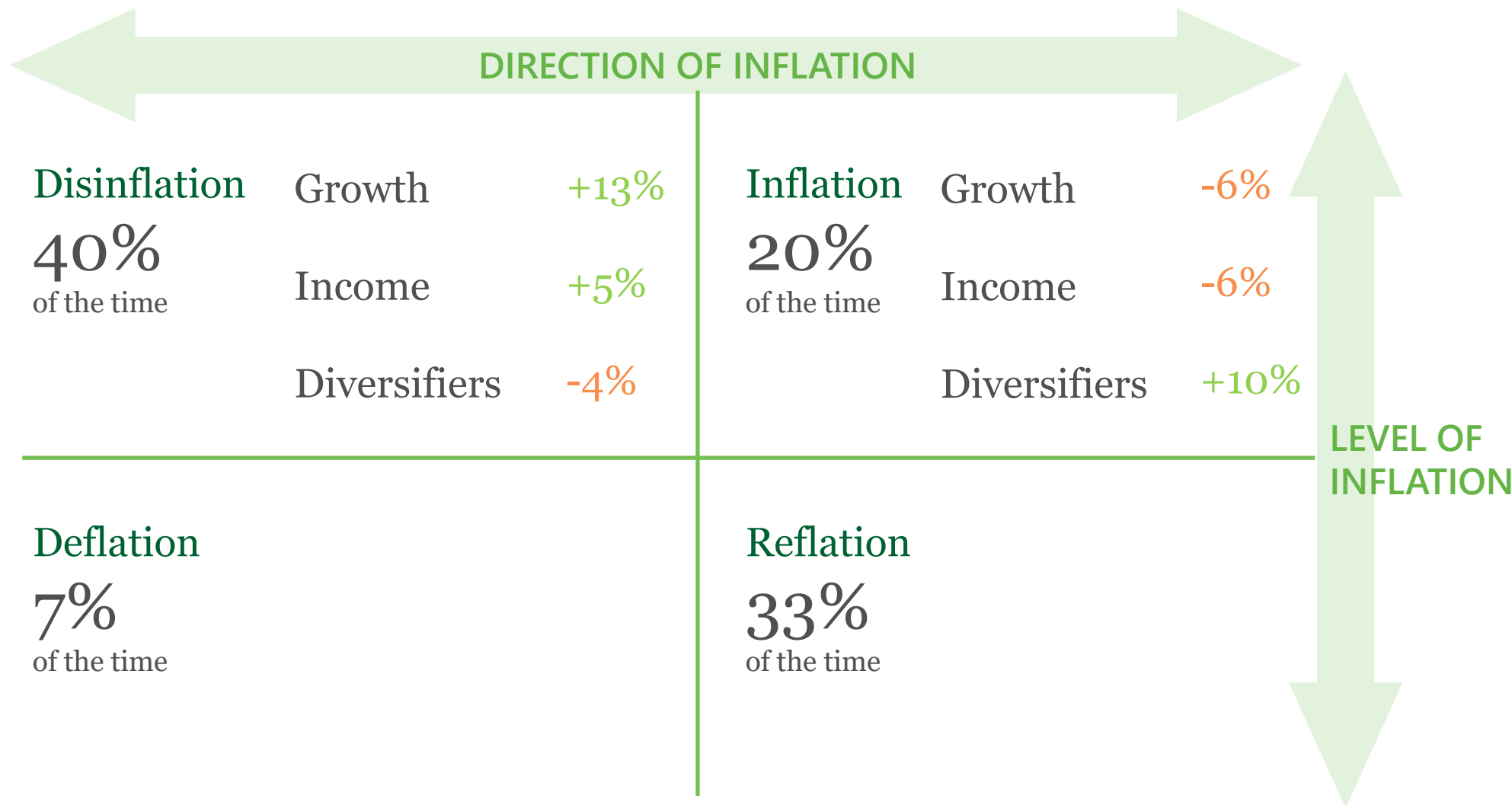




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- Higher inflation = positive correlation
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- How do schemes find diversification?

Inflation regimes 1926-2022



Source: Data and methodology from Neville et al. (2021) "The Best Strategies for Inflationary Times", and Neville et al. (2022) "Varying by Degrees". The results presented here can differ from the results published in the original papers. Differences are driven by new data sources. Detailed notes regarding Ruffer calculations and the new sources are available on request.

Investment philosophy and approach

TWO SIMPLE INVESTMENT OBJECTIVES

1

Not to lose money on any 12 month rolling basis

Our approach starts with managing the risk of losing money

Our philosophy is built upon a willingness to challenge market 'certainties'

We aim to provide genuine protection in times of market stress

2

Generate returns meaningfully ahead of the return on cash

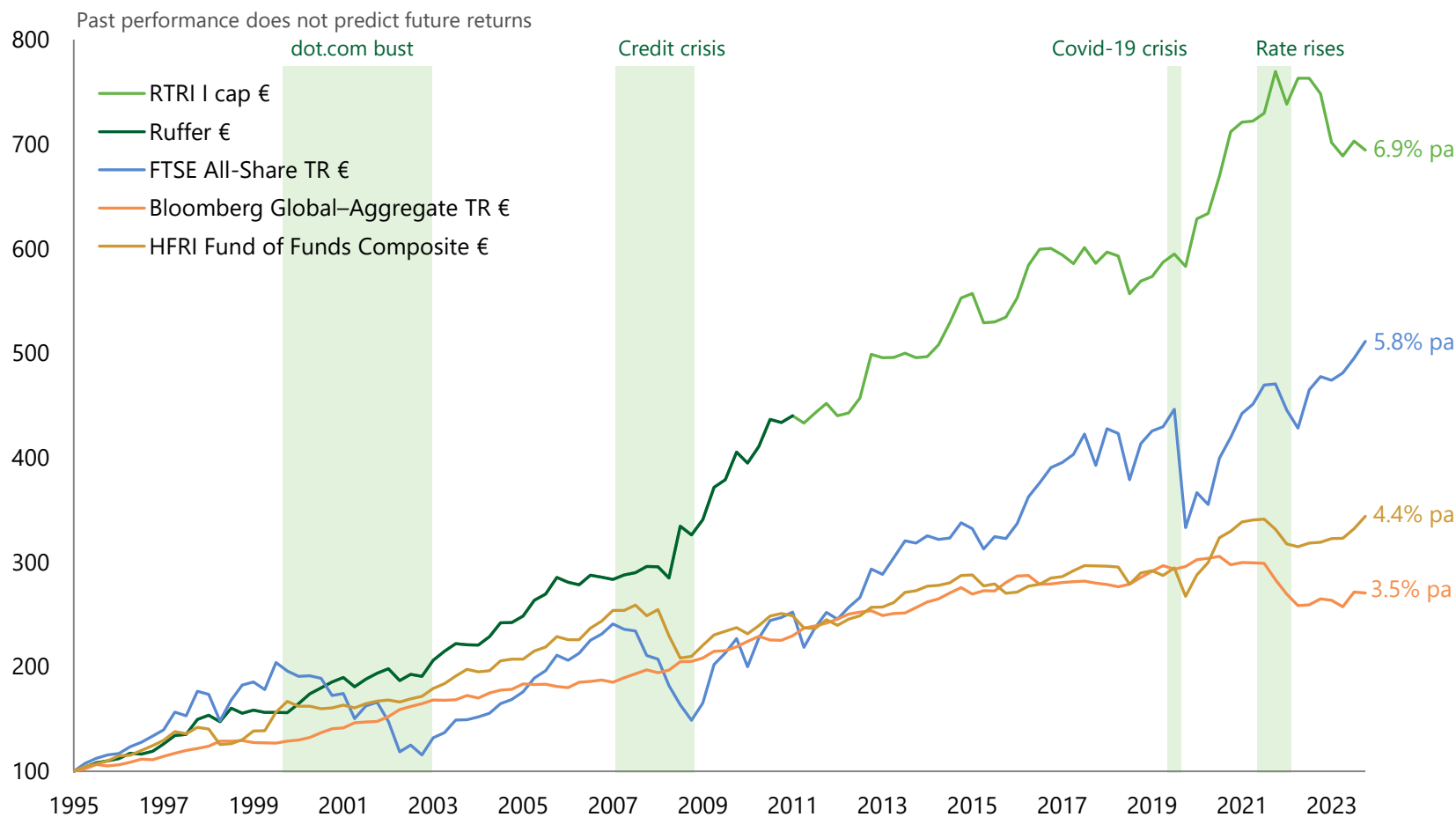
We aim to identify regime changes in markets and to benefit from them

We are opportunistic with our allocation to risk assets

Asset allocation is the key driver of returns

Capital preservation driving long term returns

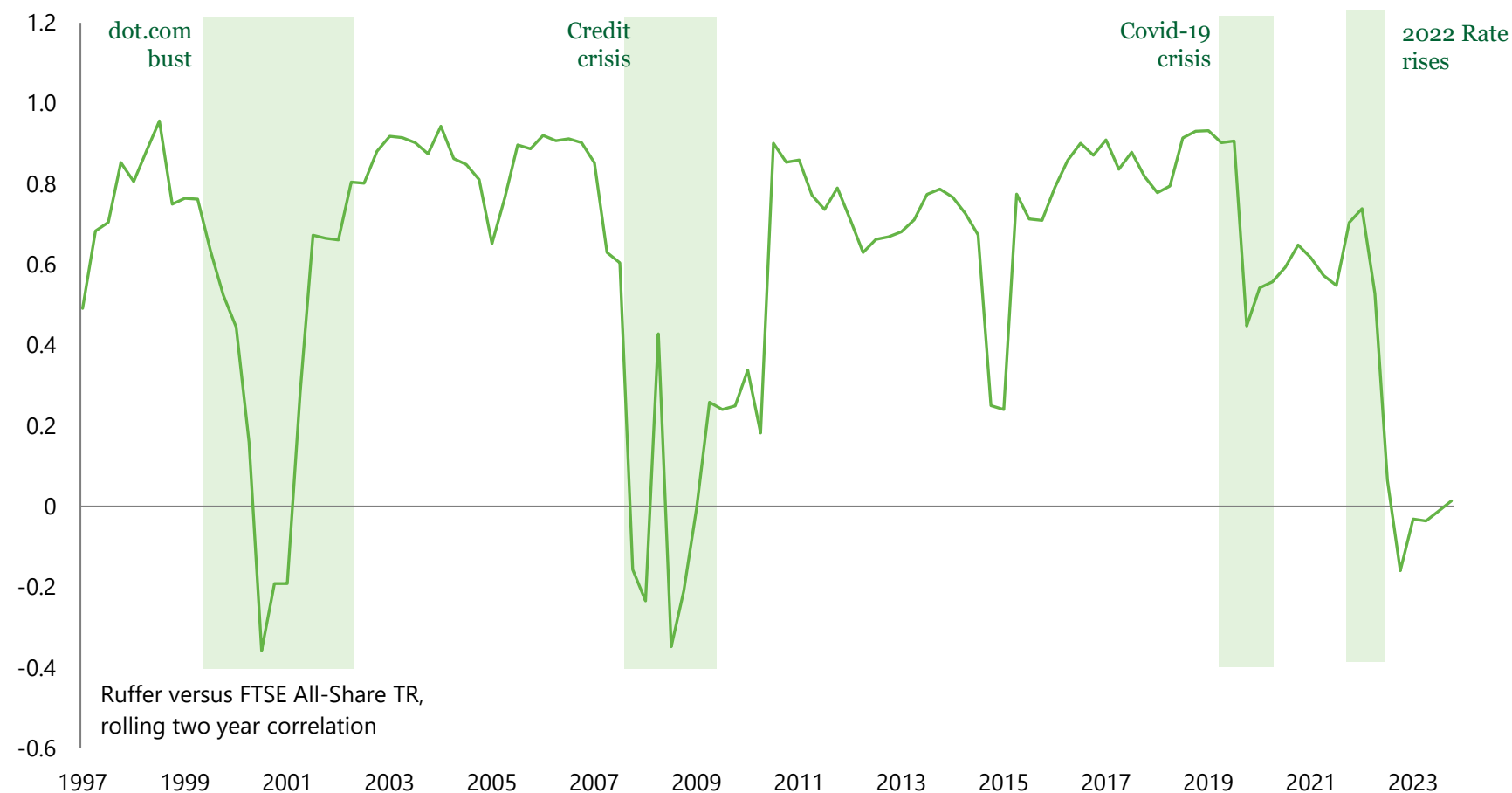
RUFFER, FTSE ALL-SHARE INDEX, BLOOMBERG GLOBAL AGGREGATE AND HFRI FUND OF FUNDS 1995–2024



Source: Ruffer, FTSE, Bloomberg, HFRI
 Performance data is included in the appendix. Cumulative performance between 30 June 1995 and 31 March 2024 (quarterly until 30 June 2023 and monthly thereafter). All mentions of Ruffer performance refer to Ruffer's representative portfolio until 14 July 2011, when Ruffer Total Return International was launched. Ruffer's representative portfolio shows the performance of an unconstrained, segregated, model portfolio of £1 million set up in 1995 following Ruffer's investment approach, hedged into EUR, after deduction of all fees and management charges, and on the basis of income being reinvested. Performance of the Ruffer Total Return International fund is shown for the I Cap EUR share class.

Correlation falls during market stress...

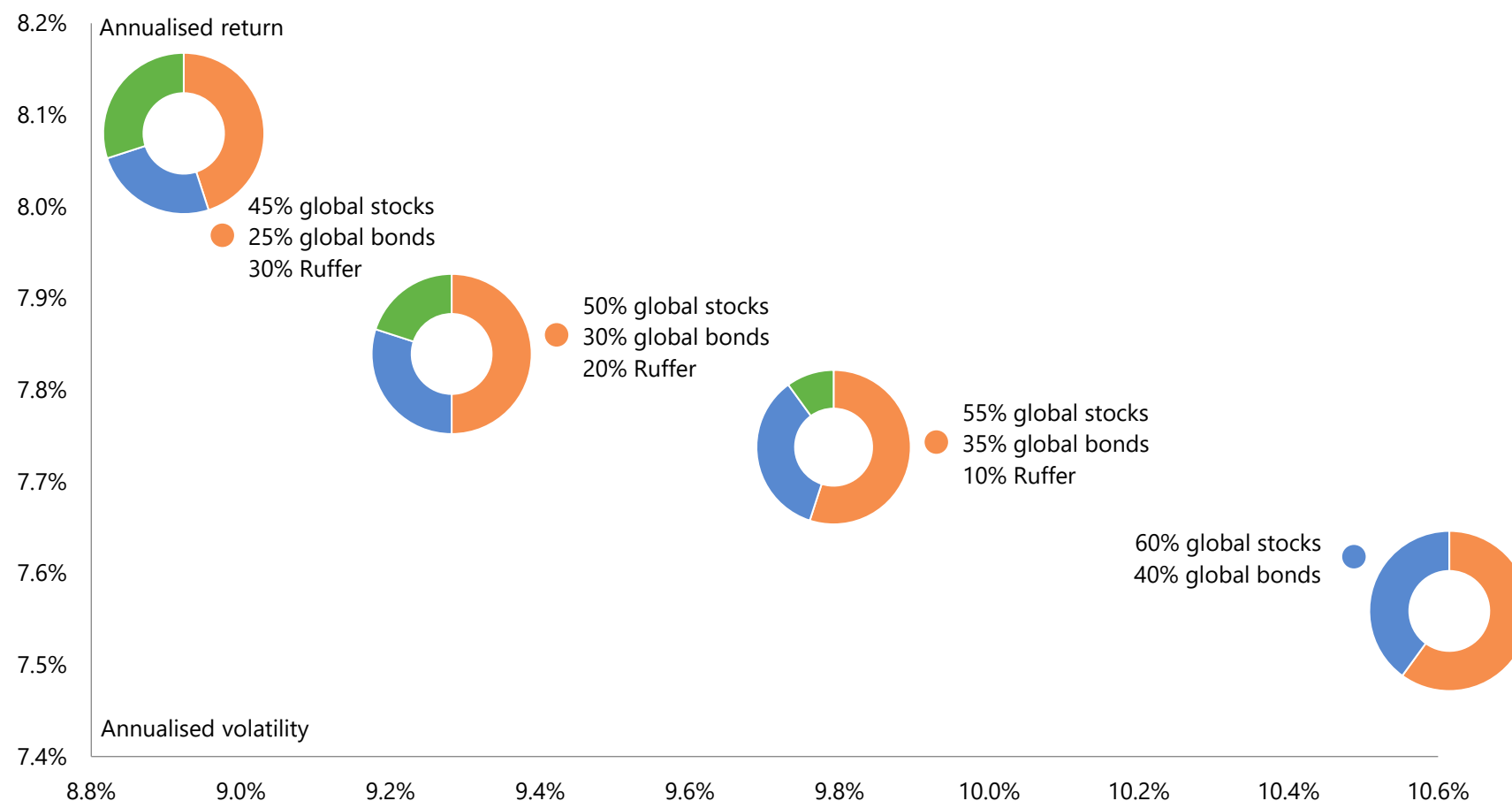
...CONSISTENTLY PROVIDING DIVERSIFICATION OUTSIDE OF FIXED INCOME



Source: Ruffer representative portfolio versus FTSE All-Share TR, rolling two-year correlation. FTSE Russell, Ruffer calculations, based on quarterly performance data from 30 June 1997 to 31 March 2024

An allocation to Ruffer improves risk and return

RISK AND RETURN OUTCOMES FROM THE INTRODUCTION OF RUFFER INTO A BALANCED PORTFOLIO



Source: Ruffer, FactSet, MSCI World TR Index, unhedged returns in GBP, Bloomberg Global Aggregate TR Bond Index, unhedged returns in GBP. Assumes quarterly rebalancing. Data from 30 June 1995 to December 2023. All mentions of Ruffer performance refer to the Ruffer Representative portfolio which shows the performance of an unconstrained, segregated, model portfolio of £1 million set up in 1995.

Inflation
volatility

STRUCTURAL

UK index-linked gilts

Gold equities and
silver bullion
exposure

High rate of return on
risk-free

Powerful opportunities
in protections


CYCLICAL – LIQUIDITY

Short-dated bonds

Cash

Derivative protection

Yen



EQUITY	CREDIT	FX
S&P index puts	IG CDS indices	JPY call options

Economic
re-acceleration

CYCLICAL –
FUNDAMENTALS

Financial equities

Oil equities

Copper exposure

Regulatory performance data

PERCENTAGE GROWTH

To 31 Mar %	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
Ruffer + RTRI I €	8.3	25.5	4.1	0.3	18.8	4.5	-1.5	15.9	9.6	17.7	0.1	3.6	10.2	24.4	7.0	4.3	10.4	-0.6	11.5	-3.3	12.3	-2.4	-2.9	2.5	22.1	8.1	-2.8	-7.2
FTSE All-Share TR €	15.7	32.1	3.3	7.4	-11.9	-3.8	-30.3	29.2	12.9	25.1	9.5	-8.9	-29.4	52.5	8.9	2.1	16.4	8.4	6.1	-4.5	21.1	0.5	5.3	-19.4	25.9	12.2	1.5	7.0
Bloomberg Global- Aggregate TR €	5.6	9.8	6.1	-0.4	9.2	5.0	11.5	4.7	3.5	1.5	3.4	5.2	4.1	6.9	2.8	7.4	4.9	1.2	7.4	1.8	-0.5	0.3	1.9	3.7	0.5	-4.8	-6.5	2.1
HFRI Fund of Funds Composite €	13.3	14.0	-8.4	28.3	-3.7	3.9	2.8	15.1	4.9	10.4	6.4	2.1	-15.6	13.2	5.7	-2.4	4.8	6.1	5.4	-6.0	5.5	4.0	-2.3	-7.7	23.3	0.6	-3.7	7.8

Source: Ruffer, FTSE International, Bloomberg. Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. 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. This marketing communication, and any statements accompanying it, are for information only and are not intended to be legally binding. Unless otherwise agreed in writing, our investment management agreement, in the form entered into, constitutes the entire agreement between Ruffer and its clients, and supersedes all previous assurances, warranties and representations, whether written or oral, relating to the services which Ruffer provides. All mentions of Ruffer performance refer to the Ruffer representative portfolio which shows the performance of an unconstrained, segregated portfolio of £1 million set up in 1995 to follow Ruffer's investment

approach. Performance prior to 1 July 2022 has been calculated using monthly data points, and thereafter using daily data points. More information: ruffer.co.uk/methodology.

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Regulatory performance data

PERCENTAGE GROWTH

To 31 Dec %	05	06	07	08	09	10	11	12	13	14	15	16	17	18	19	20	21	22	23
Ruffer £	14.1	8.4	2.1	16.0	13.0	15.1	1.3	4.6	11.1	4.2	-0.1	10.9	0.5	-5.8	7.0	16.7	8.2	5.7	-7.0
Bloomberg Barclays Global TR £	10.6	-14.4	-2.2	40.5	-10.2	3.8	2.8	-2.2	-5.2	10.7	3.5	19.7	-9.1	3.8	-0.1	-1.1	-3.3	-3.3	-2.7
MSCI World TR £	20.3	3.5	5.3	-19.8	13.1	13.0	-6.9	8.2	21.8	9.3	2.9	25.6	9.7	-4.9	20.4	10.5	21.2	-9.3	14.9
Bank Rate	4.7	4.7	5.6	5.0	0.8	0.5	0.5	0.5	0.5	0.5	0.5	0.4	0.3	0.6	0.8	0.3	0.1	1.3	4.7

Source: Ruffer, MSCI, Bloomberg. Ruffer performance is shown after deduction of all fees and management charges, and on the basis of income being reinvested. 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. This document, and any statements accompanying it, are for information only and are not intended to be legally binding. Unless otherwise agreed in writing, our investment management agreement, in the form entered into, constitutes the entire agreement between Ruffer and its clients, and supersedes all previous assurances, warranties and representations, whether written or oral, relating to the services which Ruffer provides. All mentions of Ruffer performance refer to the Ruffer representative portfolio which shows the performance of an unconstrained, segregated portfolio of £1 million set up in 1995 to follow Ruffer's investment approach. Performance prior to 1 July 2022 has been calculated using monthly data points, and thereafter using daily data points. More information: ruffer.co.uk/methodology

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