



RUFFER  
INVESTMENT  
COMPANY LIMITED

**Annual Financial Report**  
**for the year ended 30 June 2010**

## **RUFFER INVESTMENT COMPANY LIMITED**

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## RUFFER INVESTMENT COMPANY LIMITED

### Financial Highlights

	30.06.10 Offer Price £	Net Asset Value £
Redeemable participating preference shares	1.975†	1.826*

† The price an investor would be expected to pay in the market (London Stock Exchange).

\* This is the Net Asset Value for valuation purposes as at 30.06.10. The Fund is valued weekly and at month end.

### Company Information

Incorporation Date	01.06.04	
Launch Date	08.07.04 (C shares: 29.09.05)	
Initial Net Asset Value	98p per share (98p per 'C' share)**	
Launch Price	100p per share (100p per 'C' share)	
Accounting dates	Interim	Final
	31 December (Unaudited)	30 June (Audited)

\*\* On 12 December 2005, the 'C' shares were converted into redeemable participating preference shares in the Company at a ratio of 0.8314 redeemable participating preference shares for each 'C' share, in accordance with the conversion method in the Placing and Offer for Subscription Document.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Chairman's Review**

#### **Performance**

The Company's investment portfolio earned a positive total return of 21.8% in the year to 30 June 2010. This is calculated after all expenses of management and allowing for the payment of dividends totalling 3.00p per share. The target rate of return for the year was 1.0%, being twice the Bank of England base rate for the period. Further details are given in the Investment Manager's Report on page 9.

#### **Earnings and Dividends**

Earnings for the year were 2.38p per share on revenue account and 29.98p per share on capital account. In the course of the year dividends totalling 3.00p per share were paid. A final dividend of 1.5p per share in respect of the year to 30 June was approved on 25 August and will be paid on 24 September.

#### **Share Price**

Throughout the year to 30 June 2010, apart from two brief periods, the shares traded at a premium to Net Asset Value (NAV). This range was between a 0.9% discount to the prevailing NAV to an 8.8% premium, with the average being around a 4.5% premium.

#### **New Share Issue**

Subsequent to the year end the Board published a prospectus relating to proposals for a placing of up to £50 million of shares in the Company. This placing was timed to coincide with the inclusion of the Company in the FTSE All Share Index.

The placing was fully subscribed and 26,595,744 shares were issued at 188p which represented a 2% premium over the prevailing NAV. This placing raised £50 million of additional capital for the Company. As at 23 September, the date of this Report, the Company had 124,638,416 Redeemable Participating Preference Shares of 0.01 pence each in issue. Therefore the total voting rights in the Company are 124,638,416. I am very pleased to report that the Company duly became a constituent of the FTSE All Share Index on 20 September 2010.

#### **Annual General Meeting**

The Annual General Meeting ("AGM") of the Company will be held at 10.30 a.m. on Tuesday 23 November at the Company's registered office at Trafalgar Court, Les Banques, St Peter Port, Guernsey.

#### **Share Buyback Authority**

Despite the shares trading at a premium to NAV throughout most of the year to 30 June 2010, the Board has resolved to seek, at the AGM on 23 November, a renewal of its authority to buy back shares at a discount to NAV in the terms to be stated in a Special Resolution. No shares have been bought back under authorizations granted at previous AGMs.

#### **Share Redemption Facility**

The Company has a Redemption Facility operable in November each year. The Board has resolved not to offer the Facility in November 2010.

#### **Chairman**

I am now approaching the age of 73 at which, under the Articles, I must retire from the Board and intend to do so after the forthcoming AGM.

John de Havilland  
*Chairman*  
23 September 2010

## RUFFER INVESTMENT COMPANY LIMITED

### Directors

The Company has six non-executive directors, all of whom except Wayne Bulpitt and Peter Luthy, are independent of the Manager and details of whom are set out below.

*John de Havilland*, aged 72 and a resident of South Africa. He joined J Henry Schroder Wagg and Co Limited in 1959 as a fund manager and he became director of Schroder Wagg in 1972. He ran Schroder investment division's own account trading book for 20 years and also managed funds for Schroder clients including overseas government agencies. He retired from Schroders in 1990 since when he has continued with longstanding advisory and/or trustee roles for certain major family groups.

*Wayne Bulpitt*, aged 49 and a resident of Guernsey. He is managing director and principal of Active Group Limited. He was formerly Head of Offshore Investment Services for Canadian Imperial Bank of Commerce, Global Private Banking & Trust division (1998-2001) and Managing Director of CIBC Fund Managers (Guernsey) Limited (1992-1998). He is also a director of Ruffer Illiquid Strategies Fund of Funds 2009 Limited, a Guernsey registered investment company managed by the Investment Manager.

*Jeannette Etherden*, aged 50 and a resident of the United Kingdom. She started in 1983 as a research analyst at Confederation Life (acquired by Sun Life of Canada in 1994) and was Head of UK Equities from 1991. In 1996 she moved to Newton Investment Management as a multi-asset fund manager. She was appointed a Director for Newton in 1997 and additionally was Chief Operating Officer, Investments from 1999 until her resignation in 2001. From January 2004 to January 2006 she was Business Development Manager for the Candela Fund at Olympus Capital Management.

*Peter Luthy*, aged 59 and a resident of the United Kingdom. He has worked in the fixed income market for 25 years. In 1990, he co-founded a credit focussed bond broker, Luthy Baillie Dowsett Pethick and Co. Limited ("LBDP") whose shareholders included Deutsche Bank AG, Robert Fleming Limited and Swiss Bank Corporation. Dresdner Kleinwort Benson acquired LBDP in 1996 where he was global head of credit products. In 1998 he became global head of investment banking at Barclays Capital and, since 2001, has acted as a consultant on bank credit portfolios. Currently, he is a Managing Partner of Banquo Credit Management LLP. He is also a director of Ruffer Illiquid Strategies Fund of Funds 2009 Limited, a Guernsey registered investment company managed by the Investment Manager.

*Christopher Spencer*, aged 60 and a resident of Guernsey. He qualified as a chartered accountant in London in 1975. Following two years in Bermuda he moved to Guernsey. Mr Spencer, who specialized in audit and fiduciary work, was Managing Partner/Director of Pannell Kerr Forster (Guernsey) Limited from 1990 until his retirement in May 2000. Mr Spencer is a member of the AIC Offshore Committee, a past President of the Guernsey Society of Chartered and Certified Accountants, and a past Chairman of the Guernsey Branch of the Institute of Directors. He is a non-executive director of a number of hedge funds, funds of hedge funds and other investment and insurance companies.

*Ashe Windham, CVO*, aged 53 and a resident of the United Kingdom. He joined Barclays de Zoete Wedd ("BZW") in 1987 as an institutional equities salesman and was appointed a Director of BZW's Equities Division in 1991. He joined Credit Suisse First Boston in 1997 when they acquired BZW's equities business. In 2004 he joined Man Investments as Head of Internal Communications and in 2007 became Man Group's Global Head of Internal Communications. In June 2009 he resigned from Man Group plc to set up a private family office.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Report of the Directors**

The Directors of Ruffer Investment Company Limited (the "Company") present their Annual Financial Report for the year ended 30 June 2010 which have been properly presented in accordance with The Companies (Guernsey) Law, 2008.

#### **Registration**

The Company was incorporated with limited liability in Guernsey on 1 June 2004 as a company limited by shares and as an authorised closed-ended investment company. As an existing closed-ended fund the Company is deemed to be granted an authorised declaration in accordance with section 8 of the Protection of Investors (Bailiwick of Guernsey) Law 1987, as amended and rule 6.02 of the Authorised Closed-ended Investment Schemes Rules 2008 on the same date as the Company obtained consent under the Control of Borrowing (Bailiwick of Guernsey) Ordinance 1959 to 1989.

#### **Principal Activity and Investment Objective**

The Company is a Guernsey authorised closed-ended investment company with a premium listing on the London Stock Exchange (LSE). The principal objective of the Company is detailed on page 12 of the Annual Financial Report.

During the year the Company made an application to the UK Financial Services Authority ("FSA") and to the LSE for 8,912,969 Redeemable Participating Preference Shares of 0.01 pence each to be admitted to the Official List under a general corporate purposes blocklisting facility. These new Redeemable Participating Preference Shares rank *pari passu* with the shares in issue.

Under the blocklisting facility, 8,912,969 new Redeemable Participating Preference Shares of 0.01 pence each were allotted and issued during the year to 30 June 2010.

As at 30 June 2010 the Company had 98,042,672 Redeemable Participating Preference Shares of 0.01 pence each in issue. Therefore, the total voting rights in the Company were 98,042,672.

#### **Results and Dividends**

The results for the year are set out in the Statement of Comprehensive Income on page 16. An interim dividend of 1.5p per share (£1,423,195) was declared on 25 February 2010 and paid on 26 March 2010, a further dividend of 1.5p per share was approved on 25 August 2010, also in respect of the period covered by this Report.

#### **Shareholder Information**

The Company announces its unaudited Net Asset Value on a weekly basis and at month end. A monthly report on investment performance is published by the Company's Investment Manager, on the Investment Manager's website, [www.ruffer.co.uk](http://www.ruffer.co.uk).

#### **Investment Management**

The Investment Manager of the Company is Ruffer LLP (the "Investment Manager"). The key terms of the Investment Management Agreement and specifically the fee charged by the Investment Manager are set out in Notes 6 and 15 to the financial statements. The Board believes that the investment management fee is competitive with other investment companies with similar investment mandates.

The Board reviews on an ongoing basis the performance of the Investment Manager and considers whether the investment strategy utilised is likely to achieve the Company's investment objective of achieving a positive total annual portfolio return, after all expenses, of at least twice the return of the Bank of England base rate. Having considered the portfolio performance and investment strategy, the Board has unanimously agreed that the interests of the shareholders as a whole are best served by the continuing appointment of the Investment Manager on the terms agreed.

The Investment Management Agreement will continue in force until terminated by the Investment Manager or the Company giving to the other party thereto not less than 12 months notice.

## RUFFER INVESTMENT COMPANY LIMITED

### Report of the Directors (continued)

#### Directors

The details of the Directors of the Company during the year and at the date of this Report are set out on page 3 and on the Management and Administration summary on page 42.

#### Directors' Interests

The Directors who held office at 30 June 2010 and up to the date of this Report held the following numbers of Redeemable Participating Preference Shares beneficially:

<i>Directors</i>	<i>Shares</i>
Wayne Bulpitt	20,000
Jeannette Etherden	36,627
Christopher Spencer	14,157
Ashe Windham	62,906

#### Significant Shareholdings

As at 30 August 2010, registered shareholders with holdings greater than 3% in the Company were:

<i>Shareholder</i>	<i>Shares</i>	<i>%</i>
Clients of State Street Nominees Limited	11,874,602	12.11
Clients of Roy Nominees Limited	9,350,978	9.54
Clients of Rathbone Nominees Limited	5,447,771	5.56
Clients of Speirs & Jeffrey Client Nominees Ltd	4,050,262	4.13
Clients of Alliance Trust Savings Nominees Limited	3,317,913	3.38
Clients of Adam & Company (Nominees) Limited	3,098,316	3.16
Clients of Chase Nominees Limited	3,016,384	3.08

#### Going Concern

The Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the Annual Financial Report since the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

The Board also has the discretion to operate the Redemption Facility, offering shareholders the possibility of redeeming part of their shareholding at the Net Asset Value, if it appears appropriate to do so.

#### Corporate Governance

As an authorised closed-ended investment company registered in Guernsey, the Company is eligible for exemption from the requirements of the Combined Code (the "Combined Code") issued by the UK Listing Authority. The Board has however put in place a framework for corporate governance which it believes is suitable for an investment company. This framework enables the Company to comply voluntarily with the main requirements of the Code, which sets out principles of good governance and a code of best practice.

#### Corporate Governance Principles

The Company has carefully considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") and has decided to follow the AIC's Corporate Governance Guide for Investment Companies (the "AIC Guide"). During February 2009, the Financial Reporting Council confirmed that by following the AIC Guide investment company boards should fully meet their obligations in relation to the Combined Code. The Board, having reviewed the Code, considers that it has maintained procedures during the year ended 30 June 2010 to ensure that it complies with the spirit of the AIC Code and its special circumstances as an investment company registered in Guernsey.

#### The Board

The Board currently comprises six non-executive directors, all of whom are independent with the exception of Wayne Bulpitt and Peter Luthy. Under the Corporate Governance Code Wayne Bulpitt and Peter Luthy are

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Report of the Directors (continued)**

considered not to be independent by reason of being directors of Ruffer Illiquid Strategies Fund of Funds 2009 Limited, a Guernsey registered investment company managed by the same Investment Manager as the Company. None of the Directors has a contract of service with the Company.

The Board meets on at least four occasions each year, at which time the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs. The Board is responsible for the appointment and monitoring of all service providers to the Company.

#### **Chairman, Senior Independent Director and Chief Executive**

The Chairman of the Board is John de Havilland. A biography for Mr de Havilland and all other Directors appears on page 3. In considering the independence of the Chairman, the Board has taken note of the provisions of the Combined Code relating to independence, and has determined that Mr de Havilland is an independent Director. As the Chairman is an independent Director, no appointment of a senior independent director has been made. The Company has no employees and therefore there is no requirement for a chief executive.

Attendance at the Board and other Committee meetings during the year was as follows:

	<b>Number of Meetings held</b>	<b>John de Havilland</b>	<b>Wayne Bulpitt</b>	<b>Jeannette Etherden</b>	<b>Peter Luthy</b>	<b>Christopher Spencer</b>	<b>Ashe Windham</b>
Board Meetings	5	4	5	4	3	5	4
Audit Committee Meetings	2	2	2	2	1	2	2

#### **Performance Evaluation**

The Chairman evaluates the performance of each of the Directors on an ongoing basis, taking into account the effectiveness of their contributions and their commitment to the role. The Chairman conducts formal appraisals with each Director on an annual basis. The Board conducts a similar appraisal of the Chairman.

#### **Re-election**

In accordance with the Company's Articles of Association, at the first Annual General Meeting (AGM) of the Company all of the Directors retired from office and were subsequently re-elected. At each Annual General Meeting thereafter, one-third of the Directors, (or if their number is not three or an integral multiple of three), the number nearest to, but (except where there are less than three Directors) not greater than one-third, shall retire from office. On 26 November 2009 at the 5th AGM of the Company, Wayne Bulpitt and Jeannette Etherden retired as Directors of the Company and being eligible had offered themselves for re-election and were re-elected as Directors of the Company by the Shareholders.

The Directors may at any time appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until, and shall be eligible for re-election at, the next general meeting following their appointment but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at that meeting if it is an annual general meeting. At the 5th AGM of the Company Ashe Windham retired as a Director as he was appointed subsequent to the previous AGM and being eligible had offered himself for re-election and was re-elected as a Director of the Company by the Shareholders.

#### **Supply of Information**

The quarterly board meetings are the principal source of regular information for the Board enabling it to determine policy and to monitor performance and compliance. A representative of the Investment Manager attends each board meeting thus enabling the Board to discuss and review the Company's operations and performance. All of the Directors have direct access to the Company Secretary, and may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties.



## **RUFFER INVESTMENT COMPANY LIMITED**

### **Report of the Directors (continued)**

#### **Directors' Responsibilities in Respect of the Financial Statements**

The Directors are responsible for preparing the Report of the Directors and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") and applicable law.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law, 2008. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

#### **Directors' Responsibility Statement**

The Directors confirm that they have complied with the above requirements in preparing the financial statements and that to the best of their knowledge and belief:

- (a) The Annual Financial Report, prepared in accordance with International Financial Reporting Standards, gives a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- (b) The Chairman's Review, Investment Manager's Report and Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that the Company faces.

The Directors recognise their responsibilities stated above.

#### **Disclosure of Information to the Auditor**

The Directors who held office at the date of approval of these Financial Statements confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

#### **Audit Committee**

The Company's Audit Committee comprises all of the Directors. The Audit Committee has the following remit: to meet bi-annually and to consider, inter-alia: (a) annual and interim financial statements; (b) auditor reports; and (c) terms of appointment and remuneration for the auditors (including overseeing the independence of the auditors particularly as it relates to the provision of non-audit services). The Board is satisfied that the Audit Committee contains members with sufficient recent and relevant financial experience.

The Audit Committee has considered the requirement for an annual internal audit of the Company. On the basis that the Company is an investment company with no employees, and, due to the Company's service providers all being regulated entities who themselves are subject to internal audits, the Audit Committee is of the opinion that an internal audit is not necessary for the Company.

## RUFFER INVESTMENT COMPANY LIMITED

### Report of the Directors (continued)

#### Nomination Committee

The Board as a whole fulfils the function of a Nomination Committee. Any proposal for a new Director will be discussed and approved by the Board. The Board will determine whether in future an external search consultancy or open advertising is used in the appointments of non-executive Directors.

#### Directors' Remuneration

The level of Directors' fees is determined by the whole Board on an annual basis and therefore a separate Remuneration Committee has not been appointed. When considering the level of Directors' remuneration the Board considers the industry standard and the level of work that is undertaken. Since all Directors are non executive, the Company is not required to comply with the principles of the Code in respect of executive directors' remuneration. Directors' fees are disclosed fully in each Annual Financial Report. The basic fee payable to the Chairman is £28,500 p.a. and £20,000 p.a. to each Non-Executive Director. None of the Directors had a service contract with the Company during the year and accordingly a Director is not entitled to any minimum period of notice or to compensation in the event of their removal as a Director.

#### Internal Control

The Board is responsible for establishing and maintaining the Company's system of internal control and for maintaining and reviewing its effectiveness. The system of internal controls is designed to manage rather than to eliminate the risk of failure to achieve business objectives and as such can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Board considers on an ongoing basis the process for identifying, evaluating and managing any significant risks faced by the Company. The process includes reviewing reports from the Company Secretary on risk control and compliance, in conjunction with the Investment Manager's regular reports which cover investment performance.

The Board has contractually delegated to external parties various functions as listed below. The duties of investment management, accounting and custody are segregated. Each of the contracts entered into with the parties was entered into after full and proper consideration by the Board of the quality and cost of services offered, including the control systems in operation as far as they relate to the affairs of the Company.

- Investment Management is provided by Ruffer LLP, a company authorised by the FSA.
- Administration, Accounting, Registrar and Company Secretarial duties are performed by Northern Trust International Fund Administration Services (Guernsey) Limited, a company licensed and regulated by the Guernsey Financial Services Commission.
- CREST agency functions are performed by Computershare (CI) Limited, a company licensed and regulated by the Jersey Financial Services Commission.
- Custody of assets is undertaken by the RBC Dexia Investor Services Trust, a joint venture equally owned by Royal Bank of Canada and Dexia and is authorised and regulated by the FSA.

#### Dialogue with shareholders

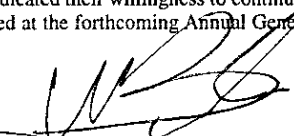
The Investment Manager and the Corporate Broker maintain regular dialogue with institutional shareholders, feedback from which is reported to the Board. In addition, Board members sometimes attend meetings between the Investment Manager and institutional shareholders and they are available to answer shareholders' questions at any time, and specifically at the AGM. The Company Secretary is available to answer general shareholder queries at any time during the year.

#### Auditors

The Auditors, Moore Stephens, have indicated their willingness to continue in office. Accordingly, a resolution for their reappointment will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

  
Director  
Christopher Spencer  
23 September 2010

  
Director  
Wayne Bulpitt

## RUFFER INVESTMENT COMPANY LIMITED

### Investment Manager's Report

#### For the year ended 30 June 2010

In the twelve month period from 1 July 2009 to 30 June 2010, the net asset value per share of the Company rose in capital terms from 152.6p\* to 182.6p\* which, together with a dividend of 3.00p, represents a total return of 21.8%, compared to the target return of 1.0%, being twice the Bank of England base rate over the period. Over the same period the FTSE All Share gained 21.1% on a total return basis. Since launch on 8 July 2004 the Company has returned 103.0%\*\*\*, including dividends.

The Investment Company has had a remarkable last two years: in 2008/9 the portfolio made good returns in difficult markets and in the last twelve months we delivered reasonable gains in easy markets. In light of this happy period for our investors it is important to note that such a level of annual returns cannot in any way be viewed as sustainable. It is simply not credible to expect to deliver year in, year out, the type of returns that we have achieved in the last two years. We will, of course, do everything within our power to preserve capital and make a decent return, but as we sadly remain bereft of a crystal ball we are fated to remain entirely fallible and, therefore, as likely to produce dull or disappointing returns in the future as sparkling ones.

The broad risk asset rally seen last year was principally the result of excess liquidity in financial markets, stemming almost entirely from extraordinary levels of fiscal and monetary stimulus and as such leaves markets vulnerable to any concerns over potential exit strategies from these stimuli. The return of high correlations between risk assets, as we also saw through much of 2009, always concerns us as it lays the ground for equally correlated falls across risk assets. Accordingly we sought protection for the portfolio in the back end of 2009 through increasing our exposure to the US Dollar, one of the few assets to decline in the 2009 recovery rally. During the minor equity setback early in 2010 the dollar behaved exactly as hoped, rising against sterling as risk appetites waned, and so we increased the exposure to over 30% of the portfolio as the markets recovered towards the end of the first quarter of 2010.

During the last quarter of the Company's financial year, risk appetite evaporated as a series of concerns hit investor sentiment. China's efforts to step on the brakes, Greece's problems and the potential spill-over into other parts of Europe, and the fiscal worries in a number of leading economies all clearly had the potential to precipitate a flight from risky assets. It so happens that in the second quarter of 2010 they did. The resilience of the portfolio through this period (the NAV was virtually unchanged during the quarter as equity markets fell by 10% or more) was largely due to our large exposure to the US Dollar and our small exposure to index put options. Our holding in the ill-fated BP was a negative for the portfolio, but our index-linked bonds held up rather well given the rise in deflationary concerns.

Our belief is that 2009 will prove to have been the calm between two storms. We navigated the difficult markets of 2008, and we have fared adequately in what have been comparatively benign markets over the last year. This coming year could well be another difficult one. Whilst central bankers still talk about the importance of inflation targeting, we expect them to remain unmoved in terms of interest rates, with the result that a period of negative real rates will be ushered in. This is the cure for the ills of excessive debts that is unfolding upon us but for the saver it is more of a curse than a cure. For this reason we remain positioned with a significant weighting in index-linked bonds, which should protect the value of the portfolio in this environment.

Within our equity holdings there are three particular themes of note. Firstly, a preference for large multinational stocks with strong balance sheets and, in many cases, attractive dividend yields. In a world where interest rates are held artificially low but credit is hard to find, companies that can finance themselves look well placed to gain pricing power against smaller and more indebted competition. Secondly, investments to benefit from an eventual reflation in Japan, though the advent of the Greek crisis has probably delayed any Japanese stimulus – governments around the world are currently all trying to show their most austere face to the bond markets. Lastly, stocks that are likely to profit from a pick-up in corporate spending as companies look to benefit from their increasingly strong financial position before governments make a grab for their money.

We are entering a choppy period in the market when opportunism is more important than the killer thought. The key to the year 2008 was guarding against the debt-strewn dislocations; the key to 2009 was to understand that quantitative easing would raise asset prices. The next big theme, high inflation and negative real interest rates, does not feel like a story for 2010 so the art is to get the portfolios safely through to the onset of this next major theme. The cross currents that we see are: strong underlying economic growth; China looking set to blow up; technical factors in certain markets, such as swaps, which all point to lower lending activity by the

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Investment Manager's Report (continued)**

banks in the future. We continue to like Japan; a part stimulus would weaken the currency, steepen the yield curve and be good for equities.

Ruffer LLP

July 2010

\* Value reported to the London Stock Exchange, using mid market price.

\*\* The calculation of the Total Return includes an amount of 4.796 pence per Share which represents the notional amount by which dividends paid to date would have grown if they had not been paid out as dividends but reinvested within the Company.

## RUFFER INVESTMENT COMPANY LIMITED

### Company Performance

	Price at 30.06.10		Change in Bid Price	
	Offer Price £	Bid Price £	From Launch %	From 30.06.09 %
Shares	1.975	1.960	+ 96.00	+ 26.61

Prices are published in the Financial Times in the "Investment Companies" section, and in the Daily Telegraph's "Share Prices & Market Capitalisations" section under "Investment Trusts".

### Fund Size

	Net Asset Value £	Net Asset Value per Share £	Number of Shares In Issue
30.06.10	178,695,014	1.823*	98,042,672
30.06.09	135,603,281	1.521	89,129,703
30.06.08	116,617,351	1.308	89,129,703
30.06.07	123,690,774	1.166	106,117,074
30.06.06	126,375,613	1.191	106,117,074
30.06.05	55,935,077	1.119	50,000,000

\* Value reported to the London Stock Exchange was 1.826 using mid market values. Bid prices are presented as fair value in the Financial Statements.

### Share Price Range

Accounting Period to:	Highest Offer Price £	Lowest Bid Price £
30.06.10	2.005	1.555
30.06.09	1.570	1.250
30.06.08	1.300	1.085
30.06.07	1.260	1.110
30.06.06	1.300	1.120
30.06.05	1.140	1.000

### Net Asset Value Range

Accounting Period to:	Highest NAV £	Lowest NAV £
30.06.10	1.897	1.518
30.06.09	1.526	1.266
30.06.08	1.333	1.176
30.06.07	1.211	1.166
30.06.06	1.234	1.122
30.06.05	1.122	0.976

*Past performance is not a guide to the future. The value of the shares and the income from them can go down as well as go up and you may not get back the amount originally invested.*

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Investment Policy**

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 (0.5% as at 30 June 2010) by investing in internationally listed or quoted equities or equity related securities (including convertibles) and/or bonds which are issued by corporate issuers, supra-nationals or government organisations.

#### **Investment Policies**

In selecting investments the Company will adopt a stock picking approach and will not adopt any investment weightings by reference to any benchmark. Both the Board and the Investment Manager believe that the adoption of any index related investment style would inhibit the ability of the Company to deliver its objectives.

The Company invests across a broad range of assets, geographies and sectors in order to achieve its objective. This allocation will change over time to reflect the risks and opportunities identified by the Investment Manager across global financial markets, with an underlying focus on capital preservation. The allocation of the portfolio between equities and bonds will vary from time to time so as to enable the Company to achieve its objective. There are no restrictions on the geographical or sectoral exposure of the portfolio (except those restrictions noted below).

The universe of equity, equity related securities or bonds in which the Company may invest will be wide and may include companies domiciled in, and bonds issued by entities based in, non-European countries, including countries that may be classed as emerging or developing. This may result in a significant exposure to currencies other than sterling.

#### **Investment restrictions and guidelines**

It is not intended for the Company to have any structural gearing. The Company has the ability to borrow up to 30% of the Net Asset Value at any time for short term or temporary purposes, as may be necessary for settlement of transactions, to facilitate share redemption or to meet ongoing expenses.

The Company will not invest in the securities of any company that is not quoted or does not have a listing on a Relevant Market.

The proportion of the portfolio invested into companies based in emerging or developing countries will be limited, at the time of any investment, to below 15% of the Company's gross assets.

The Directors have determined that the Company will not engage in currency hedging except where the Investment Manager considers such hedging to be in the interests of efficient portfolio management.

The Directors have determined that not more than 10%, in aggregate, of the value of the gross assets of the Company at the time of acquisition may be invested in other listed investment companies (including listed investment trusts) except that this restriction will not apply to investments in such entities which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed investment companies (including listed investment trusts). Regardless of the above restriction, the Directors have further determined that no more than 15% in aggregate of the Company's gross assets will be invested in other listed investment companies (including listed investment trusts).

#### **General**

In accordance with the requirements of the UK Listing Authority, any material changes in the Investment Policy of the Company may only be made with the approval of shareholders.

## RUFFER INVESTMENT COMPANY LIMITED

### Top Ten Holdings

Stock name	Currency	Holding at 30.06.2010	Market Value £	% of Total Net Assets
UK Index-Linked Gilt 1.25% 22/11/2017	GBP	11,500,000	14,314,417	8.01
US Treasury Inflation Indexed 2.375% Bond 15/01/2025	USD	12,250,000	10,504,344	5.88
US Treasury Inflation Indexed 1.625% Bond 15/01/2015	USD	11,000,000	8,860,991	4.96
UK Index-Linked Gilt 1.25% 22/11/2055	GBP	5,762,000	8,355,223	4.68
US Treasury Inflation Indexed 1.625% Bond 15/01/2018	USD	10,000,000	7,331,230	4.10
Ruffer Illiquid Strategies Fund of Funds 2009 Limited*	GBP	6,725,000	7,046,764	3.95
CF Ruffer Baker Steel Gold Fund*	GBP	2,381,330	6,276,472	3.51
Vodafone Group Plc	GBP	4,200,000	5,842,200	3.27
NTT Data	JPY	2,000	4,985,275	2.79
UK Index-Linked Gilt 1.875% 22/11/2022	GBP	4,000,000	4,922,308	2.75

\* Ruffer Illiquid Strategies Fund of Funds 2009 Limited and CF Ruffer Baker Steel Gold Fund are classed as related parties as they share the same Investment Manager as the Company.

The market value of all related investment funds are deducted from the Net Asset Value of the Company before the calculation of management fees on a monthly basis.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Independent Auditors' Report to the shareholders of Ruffer Investment Company Limited**

We have audited the financial statements of Ruffer Investment Company Limited (the "Company") for the year ended 30 June 2010 which comprise the Statement of Financial Position, the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards.

This report is made solely to the company's members as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

As explained more fully in the Report of the Directors, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

#### **Opinion**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2010 and of its profit for the year then ended;
- are in accordance with International Financial Reporting Standards; and
- have been prepared in accordance with the requirements of The Companies (Guernsey) Law, 2008.

David Green  
**MOORE STEPHENS**  
Chartered Accountants  
Town Mills South  
La Rue Du Pre  
St Peter Port  
Guernsey GY1 3HZ  
Date 23/09/10

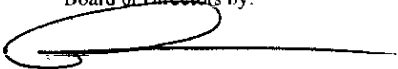


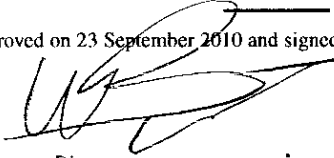
# RUFFER INVESTMENT COMPANY LIMITED

## Statement of Financial Position

	<i>Notes</i>	<b>30.06.10</b> <b>£</b>	<b>30.06.09</b> <b>£</b>
<b>ASSETS</b>			
Cash and cash equivalents		9,404,633	4,960,204
Unrealised gain on open forward foreign currency contracts	19	243,203	3,727,334
Receivables	9	2,777,816	7,445,243
Investments designated at fair value through profit or loss	1&8	168,185,441	119,837,264
<b>Total assets</b>		<b>180,611,093</b>	<b>135,970,045</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's shareholders</b>			
Management share capital	11	2	2
Net assets attributable to holders of Redeemable Participating Preference Shares		178,695,014	135,603,281
<b>Total equity</b>		<b>178,695,016</b>	<b>135,603,283</b>
<b>LIABILITIES</b>			
Payables	10	1,505,112	254,472
Unrealised loss on open forward foreign currency contracts	19	410,965	112,290
<b>Total liabilities</b>		<b>1,916,077</b>	<b>366,762</b>
<b>Total Equity and Liabilities</b>		<b>180,611,093</b>	<b>135,970,045</b>
Net assets attributable to holders of Redeemable Participating Preference Shares (per share)	13	<b>1.823</b>	<b>1.521</b>

The financial statements on pages 15 to 36 were approved on 23 September 2010 and signed on behalf of the Board of Directors by:

  
Director  
**Christopher Spencer**

  
Director  
**Wayne Bulpitt**

# **RUFFER INVESTMENT COMPANY LIMITED**

## **Statement of Comprehensive Income**

	<i>Notes</i>	<b>Revenue</b>	<b>Capital</b>	<b>01.07.09 to 30.06.10 Total</b>	<b>01.07.08 to 30.06.09 Total</b>
		<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Bank interest income	1	8,966	–	8,966	128,897
Fixed interest income	1	677,938	–	677,938	1,303,822
Dividend income	1	2,724,363	–	2,724,363	2,396,508
Net gains on investments designated at fair value through profit or loss	1&4	–	31,242,257	31,242,257	15,002,762
Other (losses)/gains	1&5	–	(2,023,496)	(2,023,496)	5,026,077
<b>Total income</b>		<b>3,411,267</b>	<b>29,218,761</b>	<b>32,630,028</b>	<b>23,858,066</b>
Management fees	6	(360,173)	(1,080,518)	(1,440,691)	(1,231,543)
Expenses	7	(495,635)	(380,685)	(876,320)	(796,307)
<b>Total expenses</b>		<b>(855,808)</b>	<b>(1,461,203)</b>	<b>(2,317,011)</b>	<b>(2,027,850)</b>
<b>Profit for the year before tax</b>		<b>2,555,459</b>	<b>27,757,558</b>	<b>30,313,017</b>	<b>21,830,216</b>
Withholding tax	2	(349,401)	–	(349,401)	(393,219)
<b>Profit for the year after tax</b>		<b>2,206,058</b>	<b>27,757,558</b>	<b>29,963,616</b>	<b>21,436,997</b>
<b>Total comprehensive income for the year</b>		<b>2,206,058</b>	<b>27,757,558</b>	<b>29,963,616</b>	<b>21,436,997</b>
Basic and diluted earnings per share*		2.38p	29.98p	32.36p	24.05p

\* Basic and diluted earnings per share are calculated by dividing the profit after taxation and increase in net assets attributable to holders of redeemable participating preference shares by the weighted average number of redeemable participating preference shares. The weighted average number of shares for the year was 92,585,251 (30.06.2009: 89,129,703).

# **RUFFER INVESTMENT COMPANY LIMITED**

## **Statement of Changes in Equity**

	Non-distributable reserves			Distributable reserves			Total
	Share capital	Capital reserve	Foreign exchange	Foreign exchange	Revenue Reserves	Other Reserves	01.07.09 to 30.06.10
	£	£	£	£	£	£	£
Balance at 30 June 2009	8,913	31,542,216	6,083,289	599,752	10,098,838	87,270,273	135,603,281
Total comprehensive income for the year	–	29,781,054	(2,056,466)	32,970	2,206,058	–	29,963,616
Transactions with Shareholders:							
Share capital issued	15,888,258	–	–	–	–	–	15,888,258
Distribution for the year	–	–	–	–	–	(2,760,141)	(2,760,141)
Balance at 30 June 2010	<u>15,897,171</u>	<u>61,323,270</u>	<u>4,026,823</u>	<u>632,722</u>	<u>12,304,896</u>	<u>84,510,132</u>	<u>178,695,014</u>
Net Assets attributable to holders of Redeemable Participating Preference Shares at the end of the year							<u>178,695,014</u>

	Non-distributable reserves			Distributable reserves			Total
	Share capital	Capital reserve	Foreign exchange	Foreign exchange	Revenue Reserves	Other Reserves	01.07.08 to 30.06.09
	£	£	£	£	£	£	£
Balance at 30 June 2008	8,913	17,822,554	1,587,072	69,892	7,407,580	89,721,340	116,617,351
Total comprehensive income for the year	–	13,719,662	4,496,217	529,860	2,691,258	–	21,436,997
Transactions with Shareholders:							
Distribution for the year	–	–	–	–	–	(2,451,067)	(2,451,067)
Balance at 30 June 2009	<u>8,913</u>	<u>31,542,216</u>	<u>6,083,289</u>	<u>599,752</u>	<u>10,098,838</u>	<u>87,270,273</u>	<u>135,603,281</u>
Net Assets attributable to holders of Redeemable Participating Preference Shares at the end of the year							<u>135,603,281</u>

# **RUFFER INVESTMENT COMPANY LIMITED**

## **Statement of Cash Flows**

	<b>01.07.09 to 30.06.10 £</b>	<b>01.07.08 to 30.06.09 £</b>
<b>Cash flows from operating activities</b>		
Purchase of investments designated at fair value through profit or loss	(116,063,318)	(121,440,043)
Proceeds from sale of investments designated at fair value through profit or loss (including realised gains)	98,116,983	127,575,478
Other receivables	6,725,000	(6,010,705)
Transaction costs paid to brokers	(380,685)	(359,443)
Bank interest received	8,966	128,897
Fixed interest income received	694,609	1,823,654
Dividends received	2,698,488	2,105,459
Withholding tax	(347,534)	(343,692)
Operating expenses paid	(1,896,708)	(1,802,935)
Foreign exchange gains	1,760,511	1,420,205
<b>Net cash (used in)/generated from operating activities</b>	<u>(8,683,688)</u>	<u>3,095,875</u>
<b>Cash flows from financing activities</b>		
Dividends paid	(2,760,141)	(2,451,067)
Proceeds from issue of redeemable participating preference shares	15,888,258	–
<b>Net cash generated from/(used in) financing activities</b>	<u>13,128,117</u>	<u>(2,451,067)</u>
<b>Net increase in cash and cash equivalents</b>	4,444,429	645,808
Cash and cash equivalents at beginning of the year	4,960,204	4,314,396
<b>Cash and cash equivalents at end of the year</b>	<u><b>9,404,633</b></u>	<u><b>4,960,204</b></u>

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements

#### 1. Significant accounting policies

##### Basis of preparation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board (IASB) and are in compliance with The Companies (Guernsey) Law, 2008. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

This annual report and financial statements, covering the year from 1 July 2009 to 30 June 2010, has been audited.

##### New Accounting Standards all effective 1 January 2009

In the current financial period, the Company has adopted International Accounting Standard 1 (Amended) – Presentation of Financial Information (IAS 1), IFRS 7 – Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments and IFRS 8 'Operating Segments' (IFRS 8) and IAS 32 (amended) Financial Instruments : Presentation, which became effective as of 1 January 2009.

IAS 1 requires the Company to present in the Statement of Changes in Equity all owner equity changes, whereas all non-owner changes in equity are presented in the Statement of Comprehensive Income.

Amendments to IFRS 7 were issued by the IASB in March 2009 and became effective for annual periods beginning on or after 1 January 2009 with early application permitted. The amendment to IFRS 7 requires fair value measurements to be disclosed by the source of inputs, using a three-level hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

In addition the amendment revises the specified minimum liquidity risk disclosures including amongst others: the contractual maturity of non derivative and derivative financial liabilities, and a description of how this is managed.

This presentation has been applied in these financial statements for the year ended 30 June 2010. Since the change in accounting policy only impacts presentation aspects, there is no impact on the Net Asset Value or the earnings per share of the Company.

IFRS 8 requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes.

The Board has considered the requirements of IFRS 8 'Operating Segments', and is of the view that the Company's activities form a single segment under the standard being investments in a diversified portfolio of internationally listed or quoted equities or equity related securities (including convertibles) and bonds which are issued by corporate issuers, supra-nationals or government organisations and shares in investment in funds. From a geographical perspective, the Company's investments are managed on a global basis. The Board, as a whole, has been determined as constituting the chief operating decision maker of the Company. The key measure of performance used by the Board to assess the Company's performance and to allocate resources is the total return based on the Net Asset Value per Share, as calculated under IFRS. Therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the Annual Financial Report.

The objective of IAS 32 is to enhance financial statement user's understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. In particular, the standard addresses classification of a financial instrument issued by an enterprise as a liability or as equity and disclosures about financial instruments, including information as to their fair values.

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 1. Significant accounting policies (continued)

##### Standards, amendments and interpretations that are not yet effective

The following interpretations are mandatory for the Company's accounting periods beginning on or after 1 January 2010 or later periods. IFRS 9 will change the way the Company classifies and measures certain of its financial assets. The other standards and interpretations are not relevant for the Company's operations.

- IFRS 1 (amendments) – Additional exemptions for first-time adopters (effective date – 1 January 2010);
- IFRS 2 (amendments) – Group cash-settled share-based payment transactions (effective date – 1 January 2010);
- IFRS 9 Financial Instruments – Classification and Measurement (effective date – 1 January 2013);
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (effective date – 1 July 2010).

'Improvements to IFRS' were issued in May 2008, April 2009 and May 2010. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009, 1 January 2010 and 1 January 2011 respectively, with earlier application permitted. No material changes to accounting policies are expected as a result of these amendments.

##### Financial instruments

Financial assets and financial liabilities are recognised on the Company's Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument.

##### *Investments designated at fair value through profit or loss*

Purchases and sales of investments are recognised on the trade date (the date on which the Company commits to purchase or sell the investment). Investments purchased are initially recorded at fair value, being the consideration given and excluding transaction or other dealing costs associated with the investment.

Subsequent to initial recognition, investments are measured at fair value. Gains and losses arising from changes in the fair value of investments and gains and losses on investments that are sold are recognised through profit or loss in the Statement of Comprehensive Income within net gains on investments designated at fair value through profit or loss.

##### *Forward foreign currency contracts*

Forward foreign currency contracts are treated as derivative contracts and as such are recognised at fair value on the date on which they are entered into and subsequently remeasured at their fair value. Fair value is determined by rates in active currency markets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The gain or loss on remeasurement to fair value is recognised immediately through profit or loss in the Statement of Comprehensive Income within other losses and gains in the period in which they arise.

##### *Other financial instruments*

For other financial instruments, including other receivables and other payables, the carrying amounts as shown in the Statement of Financial Position approximate fair values due to the short term nature of these financial instruments.

##### *Offsetting of financial instruments*

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position, if and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise assets and settle the liabilities simultaneously.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Notes to the financial statements (continued)**

#### **1. Significant accounting policies (continued)**

##### **Financial instruments (continued)**

###### *Fair Value*

Investments consist of listed or quoted equities or equity related securities, options and bonds which are issued by corporate issuers, supra-nationals or government organisations and investment in funds.

Investments traded in active markets are valued at the latest available bid prices ruling at midnight on the statement of financial position date.

Shares in investment funds are not listed on an actively traded exchange and these are valued at the latest estimate of net asset value from the administrator of the respective investment funds i.e. most recent price is the best estimate of the amount for which holdings could have been disposed of at the statement of financial position date.

###### *Derecognition of financial instruments*

A financial asset is derecognised when: (a) the rights to receive cash flows from the asset have expired, (b) the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through arrangement"; or (c) the Company has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired.

##### **Significant estimates and judgements**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate to the related actual results. The main use of accounting estimates and assumptions occurs in the calculation of the sensitivity analysis in Note 19.

##### **Income**

Dividend income from equity investments is recognised through profit or loss in the Statement of Comprehensive Income when the relevant investment is quoted ex-dividend. Investment income is included gross of withholding tax. Interest income is recognised through profit or loss in the Statement of Comprehensive Income for all debt instruments using the effective interest rate method.

##### **Expenses**

Expenses are accounted for on an accruals basis. Expenses incurred on the acquisition of investments designated at fair value through profit or loss is charged to the Statement of Comprehensive Income in capital. All other expenses are recognised through profit or loss in the Statement of Comprehensive Income in revenue.

##### **Cash and cash equivalents**

Cash comprises cash in hand and deemed deposits. Cash equivalents are short-term, highly liquid investments with original maturities of three months or less and bank overdrafts.

##### **Translation of foreign currency**

Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). This is the British Pound ("Sterling"), which is the currency in which its shares are denominated. The Company has also adopted Sterling as its presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and those from the translation at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 1. Significant accounting policies (continued)

##### Translation of foreign currency (continued)

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of net gains or losses on financial assets through profit or loss in the Statement of Comprehensive Income.

##### Redeemable participating preference shares

As the Company's Redeemable Participating Preference Shares are redeemable at the sole option of the Directors they are required to be classified as equity instruments.

#### 2. Taxation

The Company has been granted Exempt Status under the terms of The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989 to income tax in Guernsey. Its liability is an annual fee of £600.

The amounts disclosed as taxation in the Statement of Comprehensive Income relates solely to withholding tax suffered at source on income. Foreign capital gains tax charges are deducted from realised investment gains.

#### 3. Dividend to shareholders

Any dividend will be declared semi-annually in September and February each year. An interim dividend of 1.5p per share (£1,336,946) was declared on 23 September 2009 and paid on 23 October 2009 in respect of the period from 1 January 2009 to 30 June 2009. An interim dividend of 1.5p per share (£1,423,195) was declared on 25 February 2010 and paid on 26 March 2010 in respect of the period covered by this Annual Financial Report. A further dividend of 1.5p per share was approved on 25 August 2010, also in respect of the period covered by this report. The financial impact of this dividend is not included in these financial statements.

#### 4. Net gains on investments designated at fair value through profit or loss

	01.07.09 to 30.06.10 £	01.07.08 to 30.06.09 £
The net gains on investments designated at fair value through profit or loss during the year comprise:		
Gains realised on investments sold during the year	21,648,055	13,126,047
Unrealised gains arising from changes in fair value during the year	9,594,202	1,876,715
Net gains on investments designated at fair value through profit or loss	<u>31,242,257</u>	<u>15,002,762</u>

#### 5. Other gains and losses

	01.07.09 to 30.06.10 £	01.07.08 to 30.06.09 £
Unrealised (losses)/gains on forward foreign currency contracts	(3,784,008)	3,605,872
Realised gains on forward foreign currency contracts	1,217,109	1,439,906
Other realised and unrealised foreign exchange gains/(losses)	543,403	(19,701)
	<u>(2,023,496)</u>	<u>5,026,077</u>



## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 6. Management fees

The Company's Investment Manager is Ruffer LLP. The Manager receives an annual fee, payable monthly in arrears, at the rate of 1 per cent. per annum of the Net Asset Value of the Company on a mid-market basis.

During the year ended 30 June 2010, management fees of £1,440,691 (30.06.09: £1,231,543) were charged to the Company, of which £1,080,518 (30.06.09: £923,657) was charged to the capital reserves of the Company. The amount of £147,539 (30.06.09: £112,147) remained payable at the year end.

#### 7. Expenses

	01.07.09 to 30.06.10 £	01.07.08 to 30.06.09 £
Transaction costs	380,685	359,443
Administration fee	209,982	174,360
Directors' fees	128,500	115,418
General expenses	115,235	109,789
Custodian and trustee charges	14,899	18,449
Audit fee	25,391	18,432
Bank interest expense	1,628	416
	<u>876,320</u>	<u>796,307</u>

All expenses were charged to the Company apart from transaction costs of £380,685 (30.06.09: £359,443) which was charged to the capital reserves of the Company.

#### 8. Investments designated at fair value through profit or loss

	30.06.10 £	30.06.09 £
Cost of investments held at end of the year	153,204,315	114,450,340
Fair value movement	14,981,126	5,386,924
Investments designated at fair value through profit or loss	<u>168,185,441</u>	<u>119,837,264</u>

#### 9. Receivables

	30.06.10 £	30.06.09 £
Amounts falling due within one year:		
Sales of investments awaiting settlement	1,833,950	—
Investment income receivable	463,416	437,541
Fixed interest income receivable	266,029	282,700
Other receivables	214,421	2
Due from broker	—	6,725,000
	<u>2,777,816</u>	<u>7,445,243</u>

# **RUFFER INVESTMENT COMPANY LIMITED**

## **Notes to the financial statements (continued)**

### **10. Payables**

	<b>30.06.10</b>	<b>30.06.09</b>
	<b>£</b>	<b>£</b>
Amounts falling due within one year:		
Purchases of investments awaiting settlement	993,535	–
Other creditors	312,644	92,798
Management fees payable	147,539	112,147
Withholding taxes payable	51,394	49,527
	<u>1,505,112</u>	<u>254,472</u>

### **11. Share capital and share premium**

	<b>30.06.10</b>	<b>30.06.09</b>
	<b>£</b>	<b>£</b>
<b>Authorised Share Capital</b>		
100 Management Shares of £1.00 each	100	100
200,000,000 Unclassified Shares of 0.01p each	20,000	20,000
75,000,000 C Shares of 0.1p each	75,000	75,000
	<u>95,100</u>	<u>95,100</u>

	<b>Number of shares</b>		<b>Share Capital</b>	
	<b>30.06.10</b>	<b>30.06.09</b>	<b>30.06.10</b>	<b>30.06.09</b>
			<b>£</b>	<b>£</b>
<b>Issued Share Capital</b>				
<b>Management Shares</b>				
Management Shares of £1.00 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>
<b>Equity Shares</b>				
Redeemable Participating Preference Shares of 0.01p each:				
Balance at start of year	89,129,703	89,129,703	8,913	8,913
Issued during the year	8,912,969	–	15,888,258	–
Balance as at end of year	<u>98,042,672</u>	<u>89,129,703</u>	<u>15,897,171</u>	<u>8,913</u>

#### *Management Shares*

The Management Shares, of which there are 2 in issue, were created to comply with the Company Memorandum and Amended and Restated Articles of Association. The Management Shares carry one vote each on a poll, do not carry any right to dividends and, in a winding-up, rank only for a return of the amount of the paid-up capital on such shares after return of capital on all other shares in the Company. The Management Shares are not redeemable.

#### *Unclassified Shares*

Unclassified Shares can be issued as Nominal Shares or Redeemable Participating Preference Shares ("Participating Shares"). Nominal Shares can only be issued at par to the Administrator. The Administrator is obliged to subscribe for Nominal Shares for cash at par when Participating Shares are redeemed to ensure that funds are available to redeem the nominal amount paid up on Participating Shares.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Notes to the financial statements (continued)**

#### **11. Share capital and share premium (continued)**

##### *Unclassified Shares (continued)*

The holder or holders of Nominal Shares shall have the right to receive notice of and to attend general meetings of the Company but shall not be entitled to vote thereat. Nominal Shares shall carry no right to dividends. In a winding-up, holders of Nominal Shares shall be entitled to be repaid an amount equal to their nominal value out of the assets of the Company.

The holders of fully paid Participating Shares carry a preferential right to a return of capital in priority to the Management Shares but have no pre-emptive right and are entitled to one vote at all meetings of the relevant class of shareholders.

##### *Share Premium Account*

By way of a special resolution passed on 22 June 2004, it was resolved that the amount standing to the credit of the share premium account of the Company following completion of the issue (less any formation and initial expenses set off against the share premium account) be cancelled and the amount so cancelled be credited as a distributable reserve. This resolution was approved by the Royal Court of Guernsey on 17 December 2004.

By way of a special resolution passed on 8 November 2007, it was resolved that the amount standing to the credit of the share premium account of the Company following completion of the issue (less any expenses set off against the share premium account) be cancelled and the amount so cancelled be credited to the reserve to be established in the books of account of the Company, but shall be able to be applied in any manner in which the Company's profits available for distribution (as determined in accordance with the Companies (Guernsey) Law, 1994 to 1996) are able to be applied, including the purchase of the Company's own shares and the payment of dividends. This resolution was approved by the Royal Court of Guernsey on 8 February 2008.

##### *Blocklisting and additional shares issued*

During the year the Company made an application to the Financial Services Authority and to the LSE for 8,912,969 Redeemable Participating Preference Shares of 0.01pence each to be admitted to the Official List under a general corporate purposes blocklisting facility. These new Redeemable Participating Preference Shares rank *pari passu* with the existing shares in issue.

Under the blocklisting facility, 8,912,969 new Redeemable Participating Preference Shares of 0.01pence each were allotted and issued during the year to 30 June 2010.

As at 30 June 2010 the Company had 98,042,672 Redeemable Participating Preference Shares of 0.01pence each in issue. Therefore, the total voting rights in the Company were 98,042,672.

#### **12. Reserves**

##### **Capital reserves**

Capital reserves of the Company arose as a result of gains and losses arising from changes in the fair value of investments, gains and losses on investments that were sold and expenses transferred to capital.

##### **Foreign exchange reserves**

Foreign exchange reserve arose as a result of the translation movement in forward currency contracts and other financial assets and liabilities which are not denominated in Sterling.

##### **Revenue reserves**

The revenue reserve is a distributable reserve account and income and expenses from transactions are transferred to this account.

##### **Other distributable reserves**

Other distributable reserves account includes transfers from the previous Share Premium Account due to Guernsey legislation. Other distributable reserves can be used in the purchase of the Company's own shares and the payment of dividends.

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 13. Net asset value reconciliation

The Company announces its Net Asset Value, based on mid-market value, to the London Stock Exchange after each weekly and month end valuation point. The following is a reconciliation of the value attributable to redeemable participating preference shares as presented in these financial statements, using International Financial Reporting Standards, to the last net asset value:

	30.06.10 £	30.06.09 £
Net Asset Value per share for valuation purposes	1.826	1.526
Difference due to bid prices presented as fair value as opposed to mid-market value reported to the London Stock Exchange	(0.004)	(0.004)
Other adjustments	0.001	(0.001)
Net assets attributable to holders of redeemable participating preference shares (per share)	<u>1.823</u>	<u>1.521</u>

#### 14. Contingent liabilities

There were no contingent liabilities at the statement of financial position date.

#### 15. Related party transactions

The Directors are responsible for the determination of the investment policy of the Company and have overall responsibility for the Company's activities.

#### Investment Management Agreement

The Company is managed by Ruffer LLP, an independent business incorporated in England and Wales as a limited liability partnership. The Company and the Investment Manager have entered into an Investment Management Agreement under which the Investment Manager has been given responsibility for the day-to-day discretionary management of the Company's assets (including uninvested cash) in accordance with the Company's investment objective and policy, subject to the overall supervision of the Directors and in accordance with the investment restrictions in the Investment Management Agreement and the Articles of Association. The Investment Management Agreement will continue in force until determined by the Investment Manager or the Company giving to the other party thereto not less than 12 months notice. The market value of all related investment funds are deducted from the Net Asset Value of the Company before the calculation of management fees on a monthly basis. Details of the management fees to which the Investment Manager is entitled are in Note 6.

#### Shares held in the Investment Manager

As at 30 June 2010, an immediate family member of Ashe Windham, owned 100 shares (30.06.09: 100) shares in the Investment Manager.

#### Directors

The Company has six non-executive directors, all of whom except Wayne Bulpitt and Peter Luthy are independent of the Investment Manager.

Under the Corporate Governance Code Wayne Bulpitt and Peter Luthy are considered not to be independent by reason of being directors of Ruffer Illiquid Strategies Fund of Funds 2009 Limited, a Guernsey registered investment company managed by the same Investment Manager as the Company.

The Directors of the Company are remunerated for their services at such a rate as the Directors determine provided that the aggregate amount of such fees does not exceed £150,000 per annum.

Each Director was paid a fee of £20,000 (30.06.09: £20,000) per annum, except for the Chairman who was paid £28,500 (30.06.09: £28,500).

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 15. Related party transactions (continued)

##### Directors (continued)

Total Directors' fees for the year, including the outstanding Directors' fees due to Directors at the end of the year, are detailed below.

	30.06.10 £	30.06.09 £
Directors' fees for the year	128,500	115,418
Accrued at end of the year	32,125	32,125

##### Shares held by related parties

As at 30 June 2010, Directors of the Company held the following numbers of shares beneficially:

<i>Directors</i>	30.06.10 Shares	30.06.09 Shares
Wayne Bulpitt	20,000	20,000
Jeannette Etherden	36,627	36,627
Christopher Spencer	14,157	14,157
Ashe Windham	62,906	62,906

As at 30 June 2010, Jonathan Ruffer, Chief Executive Officer of the Investment Manager and his immediate family owned 384,800 (30.06.09: 384,000) shares in the Company.

As at 30 June 2010, the Investment Manager held 17,705,528 (30.06.09: 23,377,637) shares on behalf of its discretionary clients in the Company.

##### Investments in related funds

As at 30 June 2010 the Company held investments in three (2009: two) related investment funds valued at £18,095,233 (30.06.09: £7,710,237). Refer to the Portfolio Statement on pages 37 to 40 for details.

#### 16. Substantial Interests

As at 30 August 2010, registered shareholders with holdings greater than 3% in the Company were:

Shareholder	Shares	%
Clients of State Street Nominees Limited	11,874,602	12.11
Clients of Roy Nominees Limited	9,350,978	9.54
Clients of Rathbone Nominees Limited	5,447,771	5.56
Clients of Speirs & Jeffrey Client Nominees Ltd	4,050,262	4.13
Clients of Alliance Trust Savings Nominees Limited	3,317,913	3.38
Clients of Adam & Company (Nominees) Limited	3,098,316	3.16
Clients of Chase Nominees Limited	3,016,384	3.08

#### 17. Operating segment reporting

The Board of Directors makes the strategic resource allocations on behalf of the Company. The Company has determined the operating segments based on the reports reviewed by the Board, which are used to make strategic decisions.

The Board is responsible for the Company's entire portfolio and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy, and the Company's performance is evaluated on an overall basis.

The internal reporting provided to the Board for the Company's assets, liabilities and performance is prepared on a consistent basis with the measurement and recognition principles of IFRS.

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 17. Operating segment reporting (continued)

There were no changes in the reportable segments during the year.

As required by IFRS 8, the total fair value of the financial instruments held by the Company by each major geographical segment, and the equivalent percentages of the total value of the Company, are reported in the Portfolio Statement.

Revenue earned is reported separately on the face of the statement of comprehensive income as dividend income received from equities, and interest income received from fixed interest securities and bank deposits.

The statement of cash flows separately reports cash flows from operating, investing and financing activities.

#### 18. Financial instruments

In accordance with its investment objectives and policies, the Company holds financial instruments which at any one time may comprise the following:

- securities held in accordance with the investment objectives and policies;
- cash and short-term receivables and payables arising directly from operations;
- derivative transactions including investment in forward foreign currency contracts; and
- borrowing used to finance investment activity up to a maximum of 30% of the Net Asset Value of the Company.

#### Terms, conditions and accounting policies

The financial instruments held by the Company comprise principally of internationally listed or quoted equities or equity related securities (including convertibles) or bonds which are issued by corporate issuers, supra-nationals or government organisations.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of its financial assets and liabilities are disclosed in Note 1. The following table analyses the carrying amounts of the financial assets and liabilities by category as defined in IAS 39.

The following are the categories of financial instruments held by the Company at the reporting date:

	30.06.10 Fair Value £	30.06.09 Fair Value £
<b>Financial assets</b>		
Listed securities	157,136,972	112,127,027
Unlisted securities	11,048,469	7,710,237
Unrealised gain on open forward foreign currency contracts	243,203	3,727,334
Total financial assets at fair value through profit and loss	168,428,644	123,564,598
Other financial assets*	12,182,449	12,405,447

\* Other financial assets include cash and cash equivalents and receivables

	30.06.10 Fair Value £	30.06.09 Fair Value £
<b>Financial liabilities</b>		
Payables	1,505,112	254,472
Unrealised loss on open forward foreign currency contracts	410,965	112,290
	1,916,077	366,762

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 19. Financial risk management and associated risks

The Company is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. These risks, which have applied throughout the year and the Investment manager's policies for managing them are summarised below:

##### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Company's activities expose it primarily to the market risks of changes in market prices, interest rates and foreign currency exchange rates.

##### Market price risk

Market price risk arises mainly from the uncertainty about future prices of the financial instruments held by the Company. It represents the potential loss the Company may suffer through holding market positions in the face of price movements.

The Company's investment portfolio is exposed to market price fluctuations which are monitored by the Investment Manager in pursuance of the investment objectives and policies. Adherence to investment guidelines and to investment and borrowing powers set out in the Placing and Offer for Subscription document mitigates the risk of excessive exposure to any particular type of security or issuer.

##### Market price sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity and bond price risks at the reporting date. The 5% reasonably possible price movement for equity related securities and 100/50 basis point movement for interest rate used by the Company is based on the Investment Manager's best estimates.

A 5% increase in the market prices of equity related investments as at 30 June 2010 would have increased the net assets attributable to holders of redeemable participating preference shares by £5,385,582 (30.06.09: £3,213,999) and an equal change in the opposite direction would have decreased the net assets attributable to holders of redeemable participating preference shares by an equal opposite amount.

An increase of 100 basis points in interest rates of bond related investments as at 30 June 2010 would have decreased the net assets attributable to holders of redeemable participating preference shares by £6,928,968 (30.06.09 £9,051,450) and a decrease of 50 basis points in interest rates would have increased the net assets attributable to holders of redeemable participating preference shares by £3,464,484 (30.06.09: £4,525,725).

Actual trading results may differ from the above sensitivity analysis and these differences could be material.

##### Foreign currency risk

Foreign currency risk arises from fluctuations in the value of a foreign currency. It represents the potential loss the Company may suffer through holding foreign currency assets in the face of foreign exchange movements.

As a portion of the Company's investment portfolio is invested in securities denominated in currencies other than Sterling (the functional and presentation currency of the Company) the Statement of Financial Position may be significantly affected by movements in the exchange rates of such currencies against Sterling. The Investment Manager has the power to manage exposure to currency movements by using forward foreign currency contracts and details of the holdings of such instruments at the date of these financial statements is set out below. The Company will not engage in currency hedging except where it considers such hedging to be in the interests of efficient portfolio management.

As at 30 June 2010, the Company had five (30.06.09: five) open forward foreign currency contracts.

# RUFFER INVESTMENT COMPANY LIMITED

## Notes to the financial statements (continued)

### 19. Financial risk management and associated risks (continued)

#### Foreign currency risk (continued)

Expiration	Underlying	Notional amount of contracts outstanding	30.06.10 Fair value assets/ (liabilities) £
28 July 2010	Foreign currency (Sale of JPY)	¥609,900,000	(359,128)
9 September 2010	Foreign currency (Sale of JPY)	¥3,450,000,000	234,653
9 September 2010	Foreign currency (Sale of JPY)	¥409,000,000	(39,360)
5 July 2010	Foreign currency (Sale of JPY)	¥215,360,059	(12,477)
9 September 2010	Foreign currency (Purchase of JPY)	¥200,000,000	8,550
			<u>(167,762)</u>
Expiration	Underlying	Notional amount of contracts outstanding	30.06.09 Fair value assets/ (liabilities) £
19 November 2009	Foreign currency (Sale of USD)	US\$24,455,500	2,385,471
24 March 2010	Foreign currency (Sale of USD)	US\$14,700,000	1,082,347
8 September 2009	Foreign currency (Sale of JPY)	¥2,636,000,000	259,516
19 November 2009	Foreign currency (Purchase of USD)	US\$2,000,000	(91,889)
24 March 2010	Foreign currency (Purchase of USD)	US\$14,700,000	(20,401)
			<u>3,615,044</u>

The Investment Manager's treatment of currency transactions other than in Sterling is set out in Note 1 to the financial statements under "Translation of foreign currency" and "Forward foreign currency contracts".

As at 30 June 2010 and 2009, the Company held the following assets and liabilities in currencies other than the presentational currency:

	30.06.10 Assets £	30.06.10 Liabilities £	30.06.09 Assets £	30.06.09 Liabilities £
Japanese Yen	38,042,641	1,408,723	34,304,401	—
United States Dollar	46,019,319	10,293	22,575,767	(112,290)
Swedish Krona	3,744,852	—	5,806,732	—
Euro	3,348,435	—	2,080,089	—
South African Rand	1,085,867	—	607,397	—
Australian Dollar	968,798	—	1,158,540	—
Singapore Dollar	—	—	2,277,392	—

#### Foreign currency sensitivity

As at 30 June 2010, if the foreign currency balances had weakened 10% (30.06.09: 10%) against Sterling with all other variables held constant, net assets attributable to holders of redeemable participating preference shares would be £12,158,556 lower (30.06.09: £3,728,358), net of open forward foreign currency contracts and due mainly as a result of foreign currency losses on translation of these financial assets and liabilities to Sterling. As at 30 June 2010, a 10% (30.06.09: 10%) strengthening of the foreign currency balances against Sterling would have resulted in an equal but opposite effect on the net assets attributable to holders of redeemable





## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 19. Financial risk management and associated risks (continued)

##### Foreign currency risk (continued)

###### *Foreign currency sensitivity (continued)*

redeemable participating preference shares. Any changes in the foreign exchange rate will directly affect the profit and loss reported in the Statement of Comprehensive Income.

Actual trading results may differ from the above sensitivity analysis and these differences could be material.

##### Interest rate risk

Interest rate risk represents the uncertainty of investment return due to changes in the market rates of interest.

The Company invests in fixed and floating rate securities. The income of the Company may be affected by changes to interest rates relevant to particular securities or as a result of the Investment Manager being unable to secure similar returns on the expiry of contracts or sale of securities. Interest receivable on bank deposits or payable on the bank overdraft positions will be affected by fluctuations in interest rates.

The Investment Manager actively manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and our own opinions of likely moves in interest rates. Currently the entire exposure of the Company to fixed interest securities is in the form of Index-linked bonds. The value of these investments is determined by current and expected inflation and interest rates.

The value of fixed interest securities will be affected by general changes in interest rates that will in turn result in increases or decreases in the market value of those instruments. When interest rates decline, the value of the Company's investments in fixed rate debt obligations can be expected to rise, and when interest rates rise, the value of those investments may decline.

The investment portfolio details the security type, issuer, interest rate, and maturity date of all of the Company's fixed and floating rate securities as at 30 June 2010.

The table below summarises the Company's exposure to interest rate risks. It includes the Company's financial assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

	Floating rate £	Fixed rate £	Non-Interest bearing £	Total 30.06.10 £	Total 30.06.09 £
<b>Financial Assets</b>					
Cash and cash equivalents	9,404,633	–	–	9,404,633	4,960,204
Investments designated at fair value through profit or loss	–	58,878,389	109,307,052	168,185,441	119,837,264
Unrealised gain on open forward foreign currency contracts	–	–	243,203	243,203	3,727,334
Receivables	–	–	2,777,816	2,777,816	7,445,243
	<u>9,404,633</u>	<u>58,878,389</u>	<u>112,328,071</u>	<u>180,611,093</u>	<u>135,970,045</u>
<b>Financial Liabilities</b>					
Payables	–	–	1,505,112	1,505,112	254,472
Unrealised loss on open forward foreign currency contracts	–	–	410,965	410,965	112,290
	<u>–</u>	<u>–</u>	<u>1,916,077</u>	<u>1,916,077</u>	<u>366,762</u>

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 19. Financial risk management and associated risks (continued)

##### Interest rate risk (continued)

The table below summarises weighted average effective interest rates for financial instruments.

	30.06.10 % p.a.	Weighted average period for which rate/ yield is fixed	30.06.09 % p.a.	Weighted average period for which rate/ yield is fixed
United Kingdom government bonds	0.3840%	19.81 years	0.8256%	21.12 years
United States government bonds	0.9561%	9.31 years	2.1640%	15.56 years
Swedish government bonds	—	—	1.8550%	11.43 years
Japanese government bonds	1.5130%	6.70 years	3.1016%	8.28 years

##### Interest rate sensitivity analysis

An increase of 100 basis points (30.06.09: 100 basis points) in interest rates as at the reporting date would have decreased the net assets attributable to holders of redeemable participating preference shares by £6,928,968 (30.06.09: £9,051,450). A decrease of 50 basis points (30.06.09: 50 basis points) would have had an opposite effect by £3,464,484 (30.06.09: £4,525,725). As all the Company's fixed rate securities are index-linked bonds, their yields, and as a consequence their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, Governments' fiscal positions and rates on nominal bonds of similar maturities. This sensitivity analysis assumes only a 100 basis point increase and a 50 basis point decrease in interest rates, with all other variables unchanged. This would be the equivalent of a 100 basis point increase and 50 basis point decreases in 'real' interest rates and as such is likely to overstate the actual impact of such a move in nominal rates.

##### Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Company. Failure of any relevant counterparty to perform its obligations in respect of these items may lead to a financial loss.

The Company will not invest in the securities of any company that is not quoted or does not have a listing on a market specified in the Financial Services and Markets Act 2000 (Financial Promotions) Order 2001 and such other financial markets as may be specifically agreed from time to time between the Board and the Investment Manager.

All transactions in listed securities are settled/paid upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet their obligation.

The Placing and Offer for Subscription document allows investment in a wide universe of equity related securities and bonds, including countries that may be classed as emerging or developing. In adhering to investment restrictions set out within the document, the Company mitigates the risk of any significant concentration of credit risk.

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 19. Financial risk management and associated risks (continued)

##### Credit risk (continued)

##### *Credit risk analysis*

The Company's maximum credit exposure is limited to the carrying amount of financial assets recognised at the statement of financial position date, as summarised below:

	30.06.10	30.06.09
	£	£
Cash and cash equivalents	9,404,633	4,960,204
Unrealised gain in open forward foreign currency contracts	243,203	3,727,334
Receivables	2,777,816	7,445,243
Investments designated at fair value through profit or loss	168,185,441	119,837,264
	<u>180,611,093</u>	<u>135,970,045</u>

The Moody's and/or Standard and Poor (S&P) credit ratings of the issuers of Bonds as at 30 June 2010 were as follows:

	S&P	30.06.10 Moody's
UK Index-Linked Gilt 1.875% 22/11/2022	AAA	—
UK Index-Linked Gilt 1.25% 22/11/2055	AAA	Aaa
UK Index-Linked Gilt 1.25% 22/11/2017	AAA	Aaa
Japan Index-Linked Bond 1.20% 10/03/2017	AA	Aa2
US Treasury Inflation Indexed 1.625% Bond 15/01/2018	AAA	Aaa
US Treasury Inflation Indexed 1.625% Bond 15/01/2015	AAA	Aaa
US Treasury Inflation Indexed 2.375% Bond 15/01/2025	AAA	Aaa

None of the Company's financial assets are secured by collateral or other credit enhancements.

##### Fair value

The Company adopted the amendment to IFRS 7, effective 1 January 2009. This requires the Company to classify fair value hierarchy that reflects the significance of the inputs used in making the measurements. IFRS 7 establishes a fair value hierarchy that prioritises the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under IFRS 7 are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 19. Financial risk management and associated risks (continued)

##### Fair value (continued)

The determination of what constitutes 'observable' requires significant judgment by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The following table presents the Company's financial assets and liabilities by level within the valuation hierarchy as of 30 June 2010.

	Level 1 £	Level 2 £	Level 3 £	Total £
Financial assets at fair value through profit or loss:				
Government Indexed-Linked Bonds	58,878,389	—	—	58,878,389
Warrants	1,595,411	—	—	1,595,411
Equities	88,520,688	—	—	88,520,688
Investment Funds	—	19,190,953	—	19,190,953
Unrealised gain on open forward foreign currency contracts	—	243,203	—	243,203
<b>Total assets</b>	<b>148,994,488</b>	<b>19,434,156</b>	<b>—</b>	<b>168,428,644</b>
Financial liabilities at fair value through profit or loss:				
Unrealised loss on open forward foreign currency contracts	—	410,965	—	410,965
<b>Total liabilities</b>	<b>—</b>	<b>410,965</b>	<b>—</b>	<b>410,965</b>

Assets classified in Level 1 consists of listed or quoted equities or equity related securities, options and bonds which are issued by corporate issuers, supra-nationals or government organisations.

Assets classified in Level 2 are investment in funds fair-valued using the official net asset value of each fund as reported by each fund's independent administrator.

The Company held no Level 3 investments as at 30 June 2010 and 2009.

##### Liquidity risk

Liquidity risk is the risk that the Company will find it difficult or impossible to realise assets or otherwise raising funds to meet financial commitments.

The Company's liquidity risk is managed by the Investment Manager who monitors the cash positions on a regular basis. The Company's overall liquidity risks are monitored on a regular basis by the Board of Directors.

As at 30 June 2010 and 2009, the Company had no significant financial liabilities other than short-term payables arising directly from investing activity.

#### 20. Capital risk management

The fair value of the Company's financial assets and liabilities approximate to their carrying amounts at the date of the Statement of Financial Position. For the purposes of this disclosure, Redeemable Participating Preference Shares are considered to be capital.

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain

## RUFFER INVESTMENT COMPANY LIMITED

### Notes to the financial statements (continued)

#### 20. Capital risk management (continued)

an optimal capital structure to reduce the cost of capital. There are no externally-imposed capital requirements on the Company.

The Company has the ability to borrow up to 30% of its Net Assets Value at any time for short-term or temporary purposes as is necessary for the settlement of transactions, to facilitate redemption (where applicable) or to meet ongoing expenses. The Company does not have any structural gearing. Cash (if any) will be held in G8 currency-denominated accounts. The gearing ratio below is calculated as total liabilities divided by total equity.

	30.06.10 £	30.06.09 £
Total assets	180,611,093	135,970,045
Less: total liabilities	(1,916,077)	(366,762)
Total equity	<u>178,695,016</u>	<u>135,603,283</u>
Gearing ratio	<u>1.07%</u>	<u>0.27%</u>

The Board considers this gearing ratio to be adequate since total liabilities above refer only to other payables and unrealised losses on open forward foreign currency contracts.

#### Redemption Facility

The Company has a Redemption Facility (which takes the form of a tender offer to all holders of redeemable participating preference shares) which was made available after 8 July 2007. This facility may operate annually, in November each year, at the discretion of the Directors. Redemptions on any Redemption Date may be restricted to a maximum of 25% in aggregate of the Shares then in issue, with any tender requests from shareholders in excess of this being scaled back *pro rata*.

The facility is intended to address any imbalance in the supply and demand for the shares and to assist in maintaining a narrow discount to the Net Asset Value per share at which the shares may be trading, the Company, will at the sole discretion of the Directors:

- (i) purchase shares when deemed appropriate;
- (ii) allow an annual redemption of up to 25% of the issued shares at the prevailing Net Asset Value per Share; and
- (iii) which commenced in November 2007.

#### Purchase of Own Shares by the Company

An ordinary resolution was granted on 26 November 2009 which authorised the Company in accordance with The Companies (Guernsey) Law 2008 to make purchases of its own shares as defined in that Ordinance of its Participating Shares of 0.01p each, provided that:

- (i) the maximum number of Shares the Company can purchase is no more than 14.99% of the Company's issued share capital;
- (ii) the minimum price (exclusive of expenses) which may be paid for a Share is 0.01p, being the nominal value per share;
- (iii) the maximum price (exclusive of expenses) which may be paid for the Share is an amount equal to the higher of (i) 105% of the average of the middle market quotations for a Share taken from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which the Share is purchased and (ii) the price stipulated in Article 5(i) of the Buyback and Stabilisation Regulation (No 2237 of 2003);
- (iv) purchases may only be made pursuant to this authority if the Shares are (at the date of the proposed purchase) trading on the London Stock Exchange at a discount to the lower of the undiluted or diluted Net Asset Value;

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Notes to the financial statements (continued)**

#### **20. Capital risk management (continued)**

##### **Redemption Facility (continued)**

###### *Purchase of Own Shares by the Company (continued)*

- (v) the authority conferred shall expire at the conclusion of the Annual General Meeting of the Company in 2010 or, if earlier, on the expiry of 15 months from the passing of this resolution, unless such authority is renewed prior to such time; and
- (vi) the Company may make a contract to purchase Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract.

#### **21. Subsequent events**

These financial statements were approved for issuance by the Board on 23 September 2010.

Subsequent to the year end the Board published a prospectus relating to proposals for a placing of up to £50 million of shares in the Company.

The placing was fully subscribed and 26,595,744 shares were issued at 188p which represented a 2% premium over the prevailing NAV. This placing raised £50 million of additional capital for the Company.

The new Redeemable Participating Preference Shares were admitted to the LSE on 20 September 2010 and dealing in these shares also commenced on the same date. These new Redeemable Participating Preference Shares rank pari passu with exiting shares in issue.

As at 23 September, the date of this Report, the Company had 124,638,416 Redeemable Participating Preference Shares of 0.01 pence each in issue. Therefore the total voting rights in the Company are 124,638,416.

On 20 September, the Company made an application to the UK Financial Services Authority and to the London Stock Exchange for the blocklisting of 12,463,841 Redeemable Participating Preference Shares of 0.01 pence each. The new Redeemable Participating Preference Shares will, when issued, rank pari passu with the existing shares of the Company.

# **RUFFER INVESTMENT COMPANY LIMITED**

**Portfolio Statement as at 30 June 2010**

	Currency	Holding at 30.06.10	Market Value £	% of Total Net Assets*
<b>Government Index-Linked Bonds 32.95%</b> (30.06.09 – 40.97%)				
<b>United Kingdom</b>				
UK Index-Linked Gilt 1.875% 22/11/2022	GBP	4,000,000	4,922,308	2.75
UK Index-Linked Gilt 1.25% 22/11/2055	GBP	5,762,000	8,355,223	4.68
UK Index-Linked Gilt 1.25% 22/11/2017	GBP	11,500,000	14,314,417	8.01
			27,591,948	15.44
<b>Japan</b>				
Japan Index-Linked Bond 1.20% 10/03/2017	JPY	625,000,000	4,589,876	2.57
			4,589,876	2.57
<b>United States</b>				
US Treasury Inflation Indexed 1.625% Bond 15/01/2018	USD	10,000,000	7,331,230	4.10
US Treasury Inflation Indexed 1.625% Bond 15/01/2015	USD	11,000,000	8,860,991	4.96
US Treasury Inflation Indexed 2.375% Bond 15/01/2025	USD	12,250,000	10,504,344	5.88
			26,696,565	14.94
<b>Total Government Indexed-Linked Bonds</b>			<b>58,878,389</b>	<b>32.95</b>
<b>Gold Bullion Nil%</b> (30.06.09 – 2.03%)				
<b>Options 0.89%</b> (30.06.09 – Nil%)				
Nomura SPX 500 Put Options 1100 17/09/2010	USD	25,317	1,595,411	0.89
<b>Total Options</b>			<b>1,595,411</b>	<b>0.89</b>



# **RUFFER INVESTMENT COMPANY LIMITED**

**Portfolio Statement as at 30 June 2010 (continued)**

	Currency	Holding at 30.06.10	Market Value £	% of Total Net Assets*
<b>Equities 49.54%</b>				
<i>(30.06.09 – 39.15%)</i>				
<b>Europe</b>				
<b>Finland</b>				
Raisio Oyj	EUR	206,275	457,674	0.26
			457,674	0.26
<b>Spain</b>				
Azucarera Ebro AGR	EUR	108,700	1,234,372	0.69
			1,234,372	0.69
<b>Luxembourg</b>				
Gagfah	EUR	300,000	1,449,150	0.81
			1,449,150	0.81
<b>Sweden</b>				
LM Ericsson	SEK	500,000	3,744,852	2.10
			3,744,852	2.10
<b>United Kingdom</b>				
Better Capital Ltd	GBP	1,727,800	1,866,024	1.04
Booker Group Plc	GBP	5,631,000	2,308,710	1.29
BP Plc	GBP	825,000	2,630,925	1.47
BT Group Plc	GBP	3,559,500	4,630,910	2.59
Charles Taylor (Consulting) Plc	GBP	852,936	1,859,400	1.04
Colt Telecom Group Ltd	GBP	495,225	648,250	0.36
Electrocomponents Plc	GBP	610,000	1,321,870	0.74
Environmental Recycling Technologies Plc	GBP	500,000	6,500	0.00
HMV Group Plc	GBP	2,000,000	1,255,000	0.70
London & Stamford Property Ltd	GBP	290,300	338,200	0.19
Mecom Group Plc	GBP	361,161	603,139	0.34
Sea Energy Plc	GBP	350,000	59,500	0.03
RSA Insurance Group Plc	GBP	2,500,000	2,987,500	1.67
ServicePower Technologies Plc	GBP	8,860,000	398,700	0.22
System C Healthcare Plc	GBP	400,000	144,000	0.08
Tesco Plc	GBP	1,000,000	3,800,500	2.14
Vodafone Group Plc	GBP	4,200,000	5,842,200	3.27
			30,701,328	17.17
<b>Total European Equities</b>			<b>37,587,376</b>	<b>21.03</b>

# **RUFFER INVESTMENT COMPANY LIMITED**

**Portfolio Statement as at 30 June 2010 (continued)**

	Currency	Holding at 30.06.10	Market Value £	% of Total Net Assets*
<b>Australia</b>				
Lihir Gold Ltd	AUD	400,000	968,798	0.54
<b>Total Australian Equities</b>			<b>968,798</b>	<b>0.54</b>
<b>Canada</b>				
Barrick Gold Corp	USD	50,000	1,516,944	0.85
<b>Total Canadian Equities</b>			<b>1,516,944</b>	<b>0.85</b>
<b>United States</b>				
Clean Diesel Technologies Inc	USD	201,221	138,532	0.08
Johnson & Johnson	USD	30,000	1,183,878	0.66
Kraft Foods Inc	USD	177,000	3,310,247	1.85
Kroger Co	USD	351,000	4,612,432	2.58
Pfizer Co	USD	368,800	3,512,733	1.97
Texas Instruments Co	USD	160,000	2,487,534	1.39
<b>Total United States Equities</b>			<b>15,245,356</b>	<b>8.53</b>
<b>Asia</b>				
<b>Japan</b>				
Daiei Inc	JPY	792,000	2,183,550	1.22
Dai-ichi Mutual Life Insurance	JPY	1,650	1,525,494	0.85
Daiwa Securities Group Inc	JPY	530,000	1,505,251	0.84
Japan Real Estate Investment REIT Corp	JPY	224	1,219,912	0.68
Japan Residential Investment Co Ltd	JPY	8,330,000	3,165,400	1.77
Kao Corp	JPY	200,000	3,161,873	1.77
Nippon Building Fund REIT	JPY	490	2,587,131	1.45
Nippon Telegraph & Telephone Corp	JPY	130,000	3,569,381	2.00
Nomura Holdings Inc	JPY	400,000	1,471,411	0.82
Nomura Research Institute	JPY	60,000	855,654	0.48
NTT Data	JPY	2,000	4,985,275	2.79
Promise Co	JPY	120,000	544,755	0.30
T&D Holdings Inc	JPY	320,000	4,626,335	2.60
			31,401,422	17.57
<b>Total Asian Equities</b>			<b>31,401,422</b>	<b>17.57</b>

# **RUFFER INVESTMENT COMPANY LIMITED**

## **Portfolio Statement as at 30 June 2010 (continued)**

	Currency	Holding at 30.06.10	Market Value £	% of Total Net Assets*
<b>Africa</b>				
<b>South Africa</b>				
Gold Fields Ltd	ZAR	120,000	1,085,867	0.62
Gold Fields ADR Rep	USD	80,000	714,925	0.40
<b>Total African Equities</b>			1,800,792	1.02
<b>Total Equities</b>			<b>88,520,688</b>	<b>49.54</b>
<b>Investment Funds 10.74%</b> (30.06.09 – 6.22%)				
<b>United Kingdom</b>				
CF Ruffer Baker Steel Gold Fund**	GBP	2,381,330	6,276,472	3.51
CF Ruffer Japanese Fund**	GBP	4,697,159	4,771,997	2.67
Herald Worldwide Fund	GBP	64,341	1,095,720	0.61
Ruffer Illiquid Strategies Fund of Funds 2009 Limited**	GBP	6,725,000	7,046,764	3.95
			19,190,953	10.74
<b>Total Investment Funds</b>			<b>19,190,953</b>	<b>10.74</b>
<b>Total financial assets at fair value through profit or loss</b>			<b>168,185,441</b>	<b>94.12</b>
Other net current			10,509,575	5.88
Management share capital			(2)	–
<b>Total Value of Company</b> <b>(attributable to redeemable participating preference shares)</b>			<b>178,695,014</b>	<b>100.00</b>

\* All percentages relate to net assets attributable to holders of redeemable participating preference shares

\*\* CF Ruffer Baker Steel Gold Fund, CF Ruffer Japanese Fund and Ruffer Illiquid Strategies Fund of Funds 2009 Limited are classed as related parties as they share the same Investment Manager as the Company.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **General Information**

Ruffer Investment Company Limited was incorporated with limited liability in Guernsey as a company limited by shares and as an authorised closed-ended investment company on 1 June 2004. The 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) and bonds which are issued by corporate issuers, supra-nationals or government organisations.

The Company's shares are listed on the London Stock Exchange.

The accounting date of the Company is 30 June in each year. These annual financial statements were authorised for issue on 23 September 2010 by the Directors.

The prices of the shares in the Company are published in The Financial Times in the "Investment Companies" section, and in the Daily Telegraph's "Share Prices & Market Capitalisations" section under "Investment Trusts".

It is the intention of the Investment Manager to conduct the affairs of the Company so as to ensure that it will not become resident in the United Kingdom. Accordingly, and provided that the Company does not carry on a trade in the United Kingdom through a branch or agency situated therein, the Company will not be subject to United Kingdom Corporation Tax or Income Tax.

The Investment Manager receives an annual fee, payable monthly in arrears, at the rate of 1 per cent. per annum of the Net Asset Value of the Company on a mid market basis.

The Administrator is entitled to receive an annual fee equal to 0.15 per cent. per annum on the first £100 million and 0.10 per cent. per annum thereafter on the Net Asset Value of the Company on a mid market basis, subject to a minimum fee of £60,000 per annum.

The Custodian will be entitled to receive agreed safekeeping fees calculated on the basis of a percentage of the Net Asset Value of each holding of securities (which vary dependent on the location of the market on which those securities are traded) together with fixed transaction fees which similarly vary on a market by market basis.

## **RUFFER INVESTMENT COMPANY LIMITED**

### **Management and Administration**

#### **Directors**

John de Havilland (Chairman)  
Wayne Bulpitt  
Jeannette Etherden  
Peter Luthy  
Christopher Spencer  
Ashe Windham

#### **Registered Office**

Trafalgar Court,  
Les Banques,  
St. Peter Port,  
Guernsey,  
Channel Islands, GY1 3QL

#### **Auditors**

Moore Stephens,  
Town Mills South,  
La Rue du Pre,  
St. Peter Port,  
Guernsey,  
Channel Islands, GY1 3HZ

#### **Investment Manager**

Ruffer LLP,  
80 Victoria Street,  
London, SW1E 5JL

#### **Sponsor and Broker**

Cenkos Securities Plc,  
6.7.8 Tokenhouse Yard,  
London, EC2R 7AS

#### **Solicitors to the Company as to UK law**

Lawrence Graham LLP,  
4 More London Riverside,  
London, SE1 2AU

#### **Company Secretary, Administrator and Registrar**

Northern Trust International  
Fund Administration Services  
(Guernsey) Limited,  
Trafalgar Court,  
Les Banques,  
St. Peter Port,  
Guernsey,  
Channel Islands, GY1 3QL

#### **CREST Agent**

Computershare Investor  
Services (Channel Islands)  
Limited,  
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31 Pier Road,  
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Jersey, JE4 8PW

#### **Advocates to the Company as to Guernsey law**

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1 Le Marchant Street,  
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Channel Islands, GY1 4HP

#### **Custodian**

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