



CF RUFFER EQUITY & GENERAL FUND

An actively-managed fund emphasising absolute growth with diversity of risk

JANUARY 2010

ISSUE 86

Share price as at 31 Jan 2010

'O' accumulation shares

253.90p

Share price as at 31 Jan 2010

'O' income shares

238.92p

Launch price as at 1 Dec 1999

100.00p

Percentage growth

31 Dec 2008 – 31 Dec 2009	14.4%
31 Dec 2007 – 31 Dec 2008	7.3%
31 Dec 2006 – 31 Dec 2007	5.8%
31 Dec 2005 – 31 Dec 2006	-5.9%
31 Dec 2004 – 31 Dec 2005	26.0%

Source: Ruffer LLP

Sector ranking (Active Managed)

Position/No. of funds

1 year	95/110
3 years	1/77
5 years	6/65

Source: Lipper, S&P.

Investment adviser Ruffer LLP

ACD Capita Financial Managers Limited

Depository The Bank of New York Trust & Depository Company Limited

Auditors Grant Thornton UK LLP

Structure Sub-fund of CF Ruffer Investment Funds (OEIC)
UK domiciled UCITS III
Eligible for ISAs

Share classes Accumulation and Income

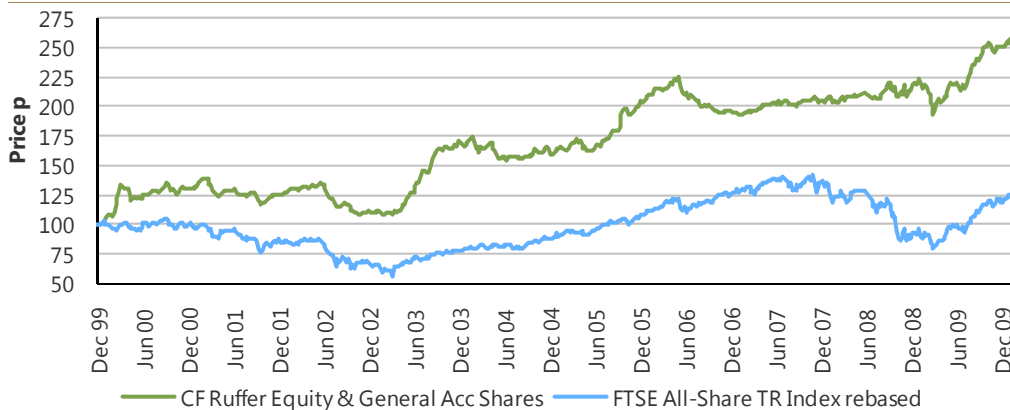
Distribution yield 0.68%

Total Expense Ratio 1.62%

Investment objective

The Fund aims to provide capital growth by investing in a diversified global portfolio of predominantly equities. The Fund is actively managed, and is not constrained by any requirement to track indices or conform to investment fashion.

Performance since inception



Source: Ruffer LLP

Monthly review

In January, the Ruffer Equity and General Fund (REG) rose 0.4%, compared with a decline of 3.6% in the FTSE All-Share Index.

As mentioned in December, volatility is likely to increase in 2010. Hence, in the beginning of January our protection was increased by buying put options on the FTSE 100 and the S&P 500; the lower the volatility and the higher the markets, the more attractively priced put options become. We try to follow the dictum 'be greedy when others are fearful and fearful when others are greedy' which means that when the consensus is more bullish on equities, as in the beginning of the year, we will do more to protect the Fund against the emergence of unexpected negative events. The use of options was very helpful in 2008 (they were undoubtedly very cheap in 2007 when credit was abundant, the consensus was complacent and was mis-pricing risk) but more often they are expensive and expire worthless. Therefore, their use leads to a 'terrible' dilemma for the cautious equity investor: do you overpay for insurance or do you go uninsured? There is no perfect answer to the above, historically I have tended to reduce the Fund's market risk via puts.

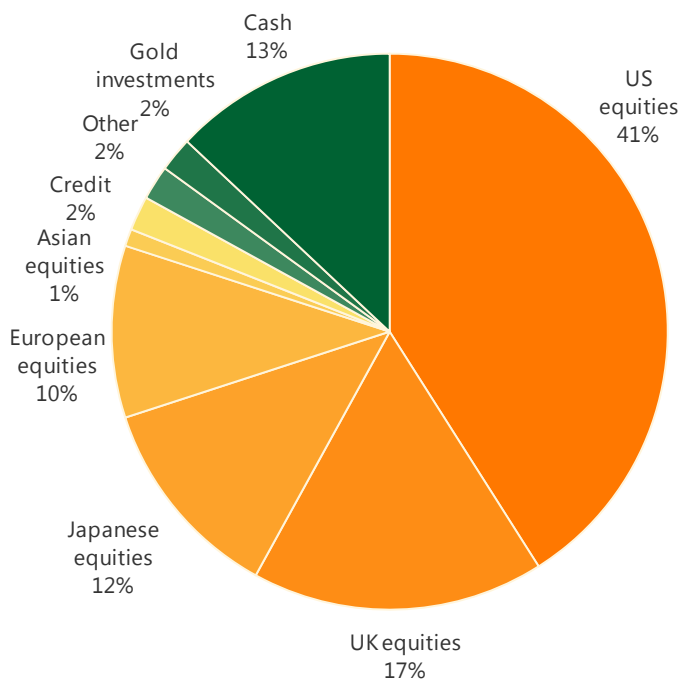
In late January, Berkshire Hathaway, one of Ruffer Equity & General (REG)'s largest positions joined the S&P 500; this was the trigger for a higher share price. In my view, as described last June, Berkshire is a very solid and undervalued business, a collection of franchises many of which have been conservatively recorded at historic book values. Irrespective of Mr Buffett's unparalleled investment acumen (i.e. excluding the potential for Berkshire to allocate capital at superior returns in the future), at the beginning of January Berkshire Hathaway was offered at a more than 30% discount to my estimate of its intrinsic value.

Kraft, REG's largest holding, eventually acquired Cadbury. Was it a good deal? My view is that we will not know with certainty for at least three years but I would tend to disagree with Mr Buffett who is calling it a bad deal with a high level of conviction. The main point of debate was whether Kraft should issue shares while being significantly undervalued

by the market. The question was what was Kraft's intrinsic value before the deal. Was it \$29 (c. market price), \$35 or \$50/share? If Kraft's value was c. \$50/share, it would almost certainly be wrong to issue shares to buy Cadbury. Nevertheless, if, as I estimated, Kraft's value was \$35-40/share, the deal may work. Kraft's core products are part of the US culture but are unlikely to be 'exported' to the international markets. Their relevance to the Chinese, Syrian or Indian emerging consumer would be very limited. Nevertheless, Trident or Halls and in general most of Cadbury's products are much more relevant to the global consumer. Therefore, assuming good execution on the integration (cost cutting and making the different operating teams work smoothly), Kraft's growth could accelerate meaningfully. To be clear, the nature of the investment case has now changed. Before the deal, in my view, it was almost impossible to lose money with Kraft. I did not know how long it would take for the market to recognize the intrinsic value of the business but sooner or later \$35-40/share would be reached paying a 4% yield for the waiting time. Thereafter we would have to reassess and probably sell our holding. Currently, after the acquisition of Cadbury, the upside potential is higher but the risk has also increased. On the positive front, Kraft's CEO is a solid operator and, with a lot of debt on her shoulder, it is clear from the beginning that she must execute well. Nevertheless, even though it is appropriate that a business such as Kraft has debt because of its stable, non cyclical cash flow, the integration of any merger is risky and if things go wrong operationally we could lose money with Kraft.

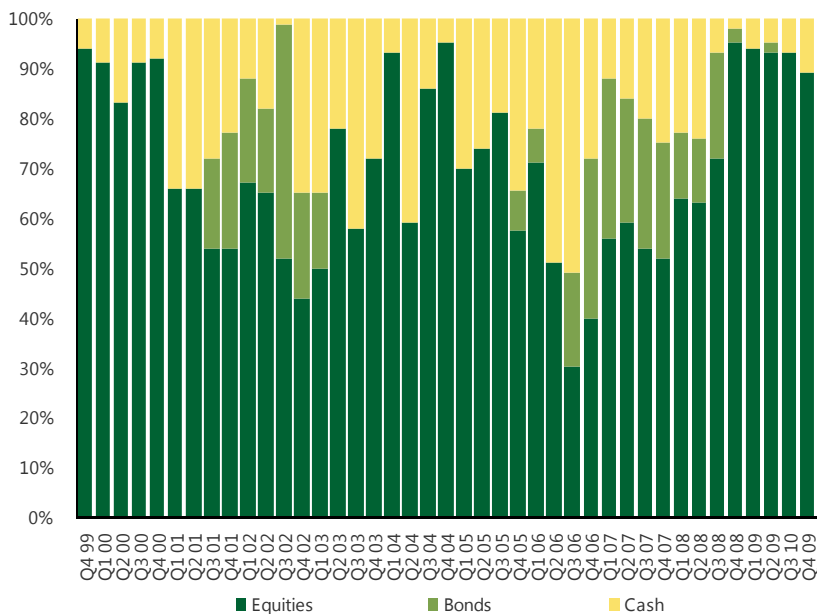
Regarding new purchases the main event in January was that our exposure to Japanese equities was increased. In my view, two classes among global equities currently offer most value: US large quality companies, where REG's main exposure lies, and Japan which was increased to c.12% of the portfolio. The new holdings involve a mix of solid franchises such as Daiwa Securities and a few small positions in extremely attractively priced securities. Needless to say that if Japan works, please thank Kentaro Nishida, our Japanese valuation expert, otherwise blame me.

Portfolio structure as at 31 Jan 2010



Source: Ruffer LLP

Asset allocation



Ten largest holdings as at 31 Jan 2010

Stock	% of fund
Kraft Foods	5.1
Berkshire Hathaway	4.6
Johnson & Johnson	3.1
Kroger	2.5
Pfizer	2.5
Wal-Mart	2.4
Medtronic	2.2
ConocoPhillips	2.0
BT Group	1.8
Better Capital	1.8

Source: Ruffer LLP

Fund information

Fund size	£120.0m (31 Jan 2010)
No. of holdings	106 equities (31 Jan 2010)
Minimum investment	£1,000
IMA classification	Active Managed
Benchmark (performance comparator)	FTSE All-Share Index
Ex dividend dates	15 March, 15 September
Pay dates	15 May, 15 November
Charges	Initial charge 5% Annual management charge O class 1.5%

Dealing	Weekly forward to 10am Wednesday, based on NAV Plus forward from 10am on last Wednesday of the month to last business day of the month
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Dealing line 0845 601 9610

ISIN Number **O class:** GB0009346718 (acc)
GB0009340802 (inc)

Sedol Number **O class:** 0934671 (acc) 0934080 (inc)

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ALEX GRISPOS Investment Director

Graduated from Imperial College with a First Class degree in Mechanical Engineering, started in equity research in 1998 at Alpha Trust in Greece, then worked in venture capital for six years. Joined Top Technology Ventures in the UK, and subsequently became Investment Manager with RTF based in London and St. Petersburg, Russia. Joined Ruffer in 2005 and is manager of the CF Ruffer Equity and General Fund.

Ruffer LLP

Ruffer LLP manages investments on a discretionary basis for private clients, their trusts and pension funds. It also manages portfolios for small and medium sized corporate and charitable institutions. As at 31 January 2010, funds managed by the group exceeded £5.8bn, of which over £2.1bn was managed in open-ended Ruffer funds.