Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone Global Opportunities Fund

Q4 investment update, 31 December 2018

Performance

	3 months	6 months	1 year	3 years	5 years
Rathbone Global Opportunities Fund	-15.93%	-10.73%	-0.52%	39.49%	76.66%
Quartile	4	4	1	1	1
IA Global sector	-11.42%	-7.99%	-5.72%	32.59%	45.91%
FTSE World index	-10.90%	-5.38%	-3.10%	42.34%	65.29%

Data to 31 December 2018. Source: FE Analytics, bid to bid, net income reinvested. I-Class units.

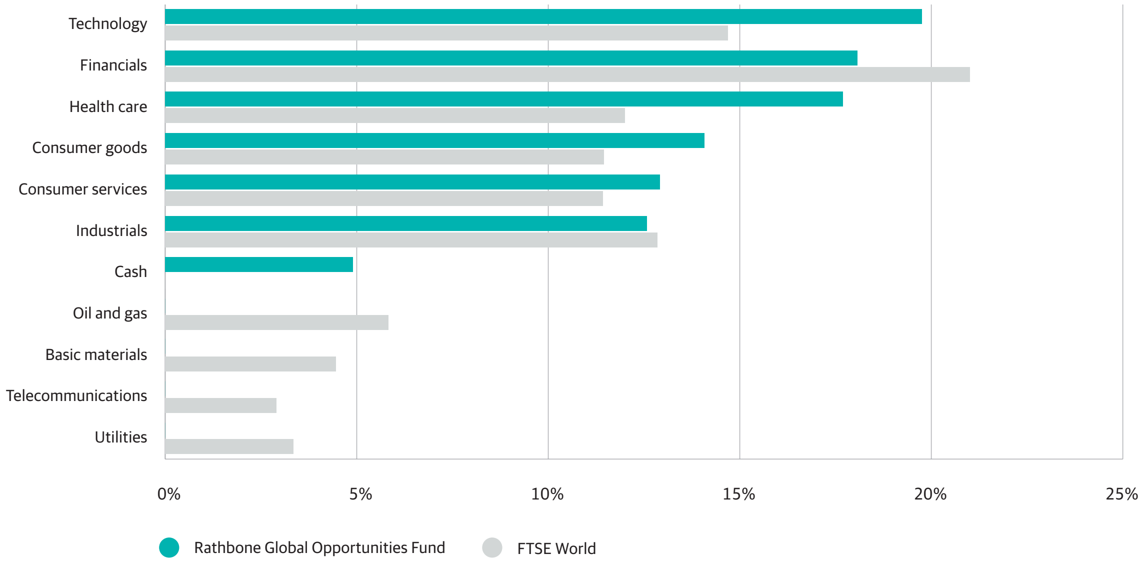
Portfolio attributes

	Rathbone Global Opportunities Fund	IA Global sector	FTSE World (£) index
Portfolio concentration			
Number of holdings	60	–	–
Percentage of fund in top 10	23.65%	–	–
Number of positions <1%	3	–	–
Number of positions >5%	0	–	–
Turnover	36.66%	–	–
Liquidity†	96.95%	–	–
Alpha	-0.26	-1.84	–
Beta	0.99	0.96	–
Sharpe	0.89	0.89	–
Volatility	12.64%	–	10.22%
Maximum drawdown	-16.36%	–	-10.90%

Data as at 31 December 2018. Source: Rathbones. All data is based on a 36 month rolling average to 31 December 2018 (volatility is based on a 12 month rolling average) unless stated otherwise.
†Percentage of portfolio converted to cash in 10 days. 20% of average daily volume.

Portfolio attributes (continued)

ICB sector weightings (as at 31 December 2018)

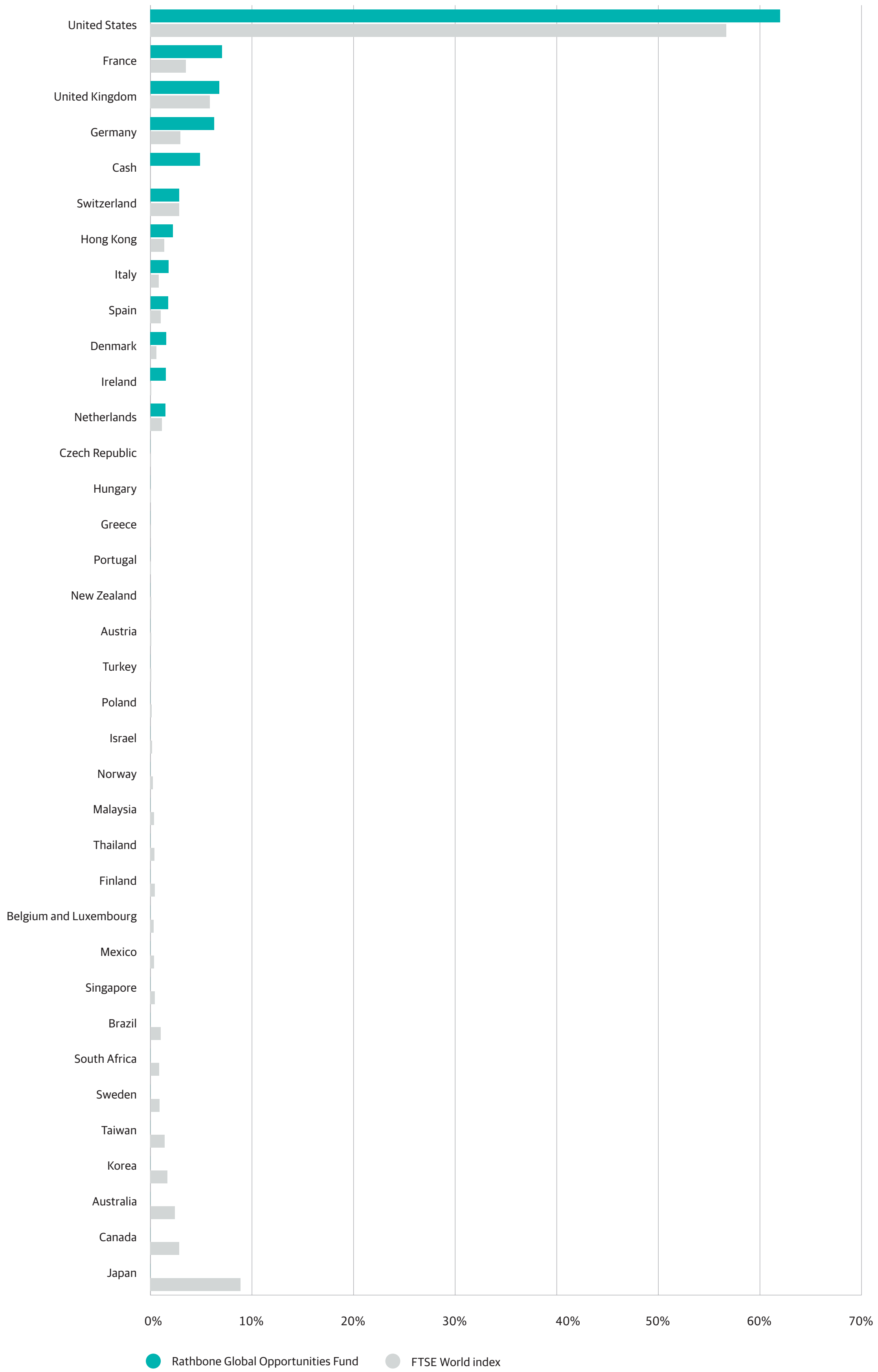


Top 10 holdings

Top 10	Country	
Amazon.com	United States	3.09%
Adobe	United States	2.59%
Align Technology	United States	2.48%
PayPal	United States	2.42%
ABIOMED	United States	2.31%
Visa	United States	2.28%
Tencent	Hong Kong	2.20%
MasterCard	United States	2.16%
salesforce.com	United States	2.07%
Rollins	United States	2.05%

Data as at 31 December 2018.

ICB country weightings (as at 31 December 2018)



In 2018, your fund returned -0.5% versus a -5.7% IA Global sector average.

We delivered top-quartile performance in 2018, but that's nothing to celebrate after a very difficult fourth quarter. Over the year our bias to growth stocks, tech, Med-Tech and less-economically sensitive businesses, like food and ingredients producers, beverages, pest control and healthcare equipment, paid off. Our geographic exposure was also helpful, with heavy exposure to the US and an underweight or zero exposure to emerging markets and the UK. Commodity stocks and banks were the worst-performing sectors worldwide; we hold almost none of these companies.

Over the year as a whole, technology, financials and med-tech made the greatest contribution to our performance. But they were hit the hardest in the Q4 sell-off. The same is true for our US holdings in general, which outperformed over the full year, but took the brunt of the pain in the last quarter. The market believes that previous outperformance is a proxy of risk, as is often the case during extreme reversions in sentiment.

The most obvious driver over the past year has been revulsion towards cyclicality and a preference for defensive and less-economically sensitive businesses.

Defence over cyclicality

Asset Class Return 2018			
1	US dollar (UUP)	8.0%	Defence
2	Health care (XLV)	4.5%	Defence
3	Utilities (XLU)	3.7%	Defence
4	Consumer disc. (XLY)	1.8%	Defence
5	S&P 500 growth (IVW)	0.4%	Defence
6	Tech (XLK)	-0.4%	Defence
7	Mega caps (XLG)	-3.3%	Defence
8	S&P 500 (SPY)	-4.4%	
9	Treasuries (TLT)	-5.7%	
10	REITS (VNQ)	-6.7%	
11	High yield (JNK)	-7.3%	
12	Consumer staples (XLP)	-7.5%	
13	Commodities (DBC)	-10.0%	
14	Small caps (IWM)	-10.2%	Cyclicality
15	S&P 500 value (IVE)	-10.6%	Cyclicality
16	Industrials (XLI)	-12.4%	Cyclicality
17	Financials (XLF)	-14.3%	Cyclicality
18	Materials (XLB)	-16.2%	Cyclicality
19	Energy (XLE)	-17.6%	Cyclicality
20	Oil commodity (OIL)	-18.7%	Cyclicality

Source: Cornerstone Macro.

We have always preferred companies with independent growth characteristics, where factors outside of their control aren't the main determinant of success or failure. As a result, we have almost never had exposure to commodities, banks or highly cyclical industrials. This has helped us over the past year, but may mean your fund will lag during boom periods.

We benefited from good stock selection in the technology and Med-Tech sectors this year. **ABIOMED** is a US healthcare equipment company with a revolutionary US Food and Drug Administration-approved miniaturised heart pump used to treat some heart attack patients. It's the only approved device on the market and is being rapidly taken up by American doctors. Small footholds are being made in a few other developed markets as well. However, perhaps in a sign that expectations had become too fanciful, the stock was hit by profit-taking in Q4. **Amazon.com**, the cloud computing and retail giant, was a positive contributor over the year, but also stumbled in Q4 after it gave a disappointing growth forecast for online retail sales. In a skittish market, many investors shoot first and ask questions later. As for us, we believe that this forecast will prove conservative and the company is willing to sacrifice revenue on loss-making products in order to drive efficiency and profitability.

Two other core technology holdings, **Adobe** and **salesforce.com**, are benefiting from a powerful structural growth driver: They are on the frontlines of businesses transforming their digital services to speed up the commercialisation of new products and services, improve operational efficiency and increase the productivity of their staff. Finally, our holding in **Match.com**, owner of the world's most popular dating websites, is a volatile and tightly held stock. But it is the leader in a growing trend of starting relationships online. Who says romance is dead, as Match even deploys artificial intelligence algorithms into identifying the right matches.

Our top contributors to performance in Q4 had a much different flavour. It was our steady, weatherproof businesses that benefited from increasing investor appetite for business models that are less economically sensitive. **Lamb Weston**, along with McCain's, is one of the world leaders in producing French fries and other potato-based goodies like hash browns and ready mash. Chips are one of the highest-margin items on a restaurant menu, and you only have to wander down a high street to see demand for them is strong and resilient. Meanwhile, Lamb Weston's factories are running close to capacity, which bodes well for pricing. **McCormick** is another food company with resilient growth credentials and a leading position in herbs, spices, seasonings, rubs and barbecue sauces. **Campari**, the Italian spirits company that introduced the world to Negroni and Aperol Spritz, is one of the fastest-growing beverage companies and yet is a relative newcomer in the large US market. Internet conglomerate **Tencent**, our only holding in Asia, bounced back in Q4 after a mauling earlier in the year due to deteriorating emerging market economic growth and the Sino-American trade war. One other problem has since eased: Chinese regulators' restrictions on new video game approvals were lifted towards the end of 2018.

Our worst performer during Q4 was our long-standing holding in **Align Technology**, whose Invisalign brand is a leading alternative to traditional wire and bracket braces. The company experimented with a generous rebate to its dentist customers in order to drive more business from lower-tier doctors. Unfortunately it backfired and only drove increased volume from existing top-tier dentists who already get a significant discount. We believe the rebate wasn't a reaction to an emerging competitive threat, as many analysts claim, but we remain on alert. Video game publisher **Activision Blizzard** suffered a self-inflicted wound from its 'in-game' merchandise during the quarter. In-game monetisation is a very high-margin activity, but the company hasn't been innovative enough. Its stale offerings give little incentive for players to spend. Some players have felt alienated and are unwilling to come back. This has challenged investors' faith in the enduring and sustainable qualities of Activision's franchises. There are lots of things to fix in 2019 for this company, so we sold the holding last year.

We predicted stormy market conditions in 2018, but it turned into a hurricane in Q4. The collapse in investor sentiment drove the ninth-worst sell-off in US market history. The market clearly believes that downside risks are rising and investors are punishing companies with higher levels of economic sensitivity. More recently, the sell-off has been most acute in previous outperformers – tech and growth stocks – where investors believe historic outperformance is a proxy for risk. The speed of this change of view is surprising in that it exaggerates many timelines, indicators and waypoints that have historically been helpful guides for investors. But perhaps that's a symptom of a market where information flows so quickly that everyone knows about the tell-tale signs of impending recession and jumps the gun.

What changes did we make in 2018?

We sold all of our tobacco exposure because we fear accelerating volume declines in traditional cigarettes and uncertain growth and regulatory response for next-generation e-cigarettes. We sold our most-economically sensitive industrial companies, including **ABB** and **Caterpillar**. We sold semiconductor equipment companies, such as **Aixtron** and **VAT**, due to the potential for a deeper cyclical downturn following many years of blockbuster capacity expansion. We sold **Facebook** at the beginning of the year as we thought the company had entered a vicious cycle where boring, repetitive and ad-driven content on the newsfeed would drive less engagement and time spent and, therefore, less advertising revenue. And finally we sold our video games companies, **Activision Blizzard** and **Electronic Arts**, as they struggle with stale content and new competition.

We used cash raised from these sales to add to existing holdings during pullbacks, but also to buy some new consumer-facing companies, such as **Costco** and **Estée Lauder**. We made new investments in software and streaming music companies, a company that makes French fries and a company that collects garbage. We have added to our weatherproof and recession-resistant businesses in the food and beverage industry, such as **Christian Hansen** (cultures and enzymes), **Campari** (Aperol Spritz) and **Heineken**. We also added to our healthcare equipment companies which allow pharmaceutical companies to outsource, speed time to market for new drugs and reduce the upfront expense of new drug manufacturing facilities.

James Thomson
Fund Manager

Absolute performance attribution 12 months to 31 December 2018

By stock

Top 5	Contribution	Average portfolio weight
ABIOMED	1.10%	2.30%
Amazon.com	0.75%	3.22%
Adobe	0.71%	2.56%
salesforce.com	0.57%	1.91%
Match	0.51%	1.53%

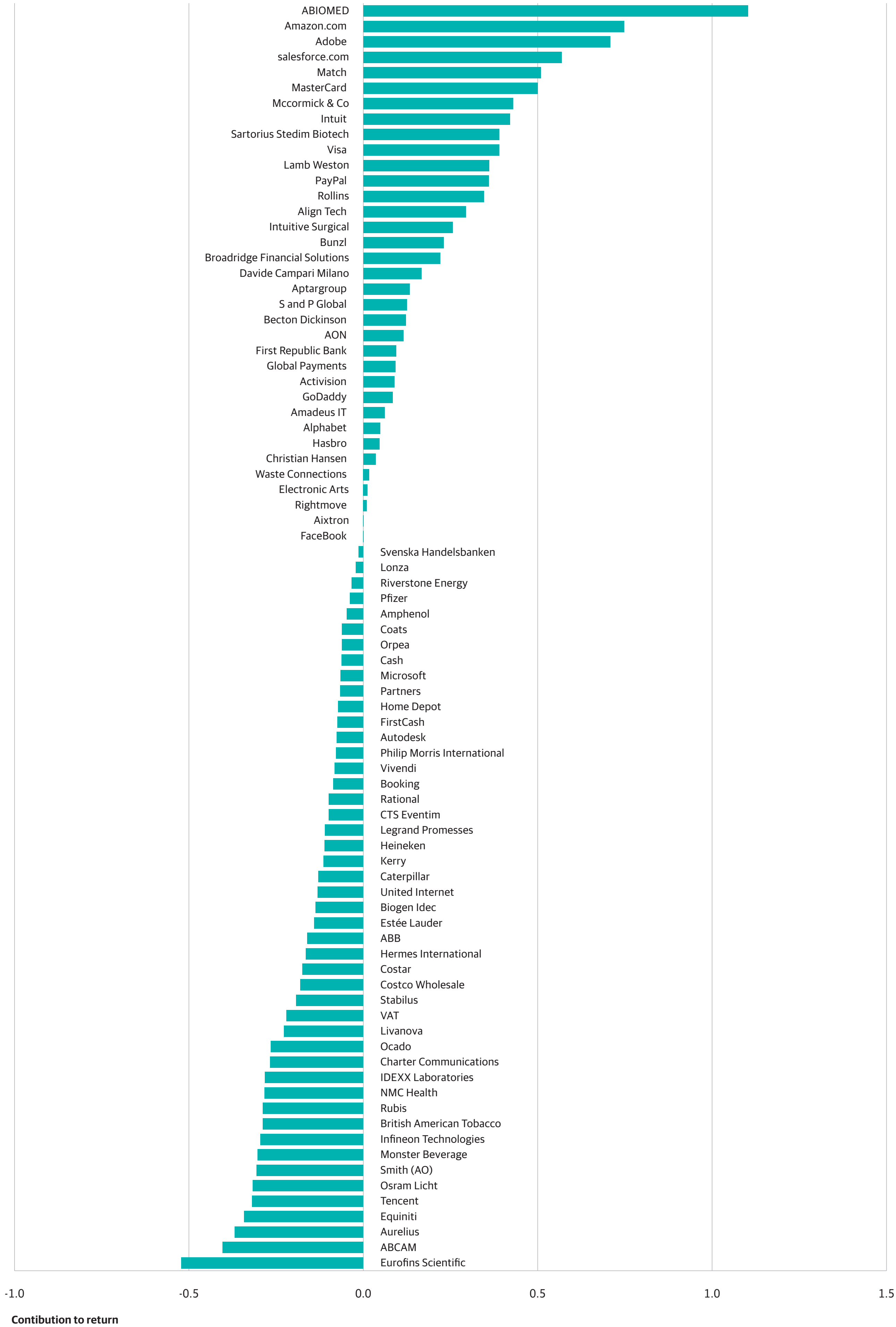
12 months to 31 December 2018.

Bottom 5	Contribution	Average portfolio weight
Eurofins Scientific	-0.52%	1.46%
ABCAM	-0.40%	0.39%
Aurelius AG	-0.37%	1.52%
Equiniti	-0.34%	0.40%
Tencent	-0.32%	2.50%

12 months to 31 December 2018.

Absolute performance attribution 12 months to 31 December 2018 (continued)

By stock



12 months to 31 December 2018.

Absolute performance attribution 12 months to 31 December 2018 (continued)

By sector

	Contribution	Average portfolio weight	Index weight
Financials	1.34%	17.72%	21.01%
Technology	1.32%	23.22%	14.69%
Health care	0.19%	16.05%	12.00%
Consumer services	0.04%	10.27%	11.43%
Oil and gas	0.00%	0.00%	5.83%
Basic materials	0.00%	0.00%	4.46%
Telecommunications	0.00%	0.00%	2.91%
Cash	-0.06%	5.26%	0.00%
Consumer goods	-0.07%	12.99%	11.46%
Utilities	-0.29%	1.01%	3.35%
Industrials	-1.56%	13.49%	12.85%

Data as at 31 December 2018.

By country

	Contribution	Average portfolio weight	Index weight
United States	5.51%	58.30%	56.69%
Italy	0.17%	1.31%	0.81%
Spain	0.06%	1.74%	1.03%
Denmark	0.03%	1.39%	0.58%
Sweden	-0.01%	0.17%	0.88%
Cash	-0.06%	5.26%	0.00%
Netherlands	-0.11%	1.35%	1.13%
Ireland	-0.11%	1.42%	0.09%
Hong Kong	-0.32%	2.50%	1.35%
Switzerland	-0.47%	4.05%	2.84%
France	-0.84%	7.80%	3.48%
United Kingdom	-1.43%	5.67%	5.86%
Germany	-1.50%	9.05%	2.93%

Data as at 31 December 2018.

Absolute performance attribution 3 months to 31 December 2018

By stock

Top 5	Contribution	Average portfolio weight
Lamb Weston	0.15%	1.64%
Mccormick & Co	0.13%	1.72%
Tencent	0.04%	1.93%
Davide Campari Milano	0.01%	1.52%
Bunzl	-0.01%	1.68%

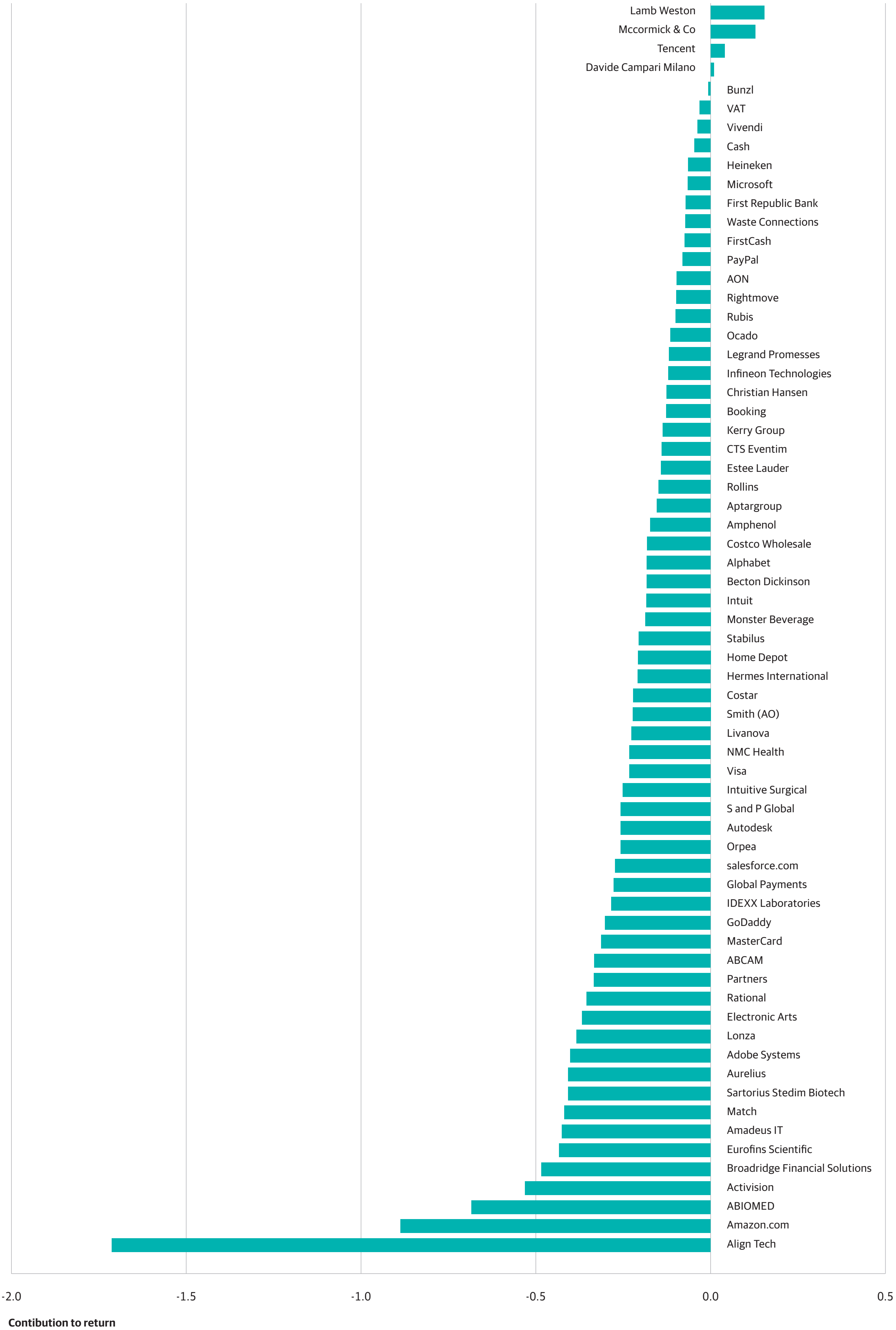
3 months to 31 December 2018.

Bottom 5	Contribution	Average portfolio weight
Align Tech	-1.71%	2.80%
Amazon.com	-0.89%	3.23%
ABIOMED	-0.68%	2.34%
Activision	-0.53%	1.01%
Broadridge Financial Solutions	-0.48%	1.72%

3 months to 31 December 2018.

Absolute performance attribution 3 months to 31 December 2018 (continued)

By stock



3 months to 31 December 2018.

Absolute performance attribution 3 months to 31 December 2018 (continued)

By sector

	Contribution	Average portfolio weight	Index weight
Basic materials	0.00%	0.00%	4.46%
Oil and gas	0.00%	0.00%	5.83%
Telecommunications	0.00%	0.00%	2.91%
Cash	-0.05%	6.23%	0.00%
Utilities	-0.10%	0.44%	3.35%
Consumer goods	-1.10%	13.46%	11.46%
Industrials	-1.53%	11.40%	12.85%
Consumer services	-1.84%	11.85%	11.43%
Financials	-2.63%	17.69%	21.01%
Technology	-3.09%	20.73%	14.69%
Health care	-5.39%	18.20%	12.00%

Data as at 31 December 2018.

By country

	Contribution	Average portfolio weight	Index weight
Hong Kong	0.04%	1.93%	1.35%
Italy	0.01%	1.52%	0.81%
Cash	-0.05%	6.23%	0.00%
Netherlands	-0.06%	1.38%	1.13%
Denmark	-0.13%	1.47%	0.58%
Ireland	-0.14%	1.48%	0.09%
Spain	-0.43%	1.69%	1.03%
Switzerland	-0.75%	3.10%	2.84%
United Kingdom	-0.78%	6.57%	5.86%
Germany	-1.23%	6.26%	2.93%
France	-1.56%	7.74%	3.48%
United States	-10.65%	60.62%	56.69%

Data as at 31 December 2018.

What should I expect?

In the short term
Above average risk characterised by higher volatility due to growth oriented economically sensitive investments and higher weighting in small and mid caps. Mitigated somewhat by our focus on risk management in recent years adding more balance, diversity and reliable growth investments in defensive areas. Always vulnerable to short-term periods of poor performance due to stock picking failures. The fund does not hedge currency positions and recent currency movements have been severe although this has been most acute in emerging market currencies where we have no direct exposure.

In the medium-to-long-term
Above average risk characterised by higher volatility but also outperformance and high alpha.

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Performance attribution is provided by StatPro Revolution.

Cash used for attribution analysis excludes that not at the discretion of the manager, such as accrued fees.

The Supplementary Information Document (SID) and application forms may be obtained from us free of charge.

For the Rathbone Global Opportunities Fund the Manager's annual fee is taken from income. This will mean that income may be eroded or restricted.

Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000
Fax 020 7399 0057

Information line
020 7399 0399
rutm@rathbones.com
rathbonefunds.com

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