

Rathbone SICAV Global Opportunities Fund

Monthly update April 2021

In April your fund was up 7.7% while the IA Global sector averaged a gain of 4.2%. Since the fund's launch on 11 March, it is up 6.9%.

Flash mob markets are in full swing. Having suffered from the rotation into earnings recovery and 'value' stocks for several months following the discovery of vaccines, your fund benefited from a whipsaw back into 'growth' and tech stocks in April. Investors were anticipating blockbuster earnings reports, and these were duly delivered. These whippy markets are driving huge disparities in short-term performance – the price action alone is forcing many investors to change holdings as the mirage of consistent outperformance gets further out of reach. While the ride is unsettling, we still believe that the outlook for quality growth stocks at the epicentre of a global economic rebound, combined with the resilience and all-weather qualities of some of our old-fashioned holdings, will drive significant outperformance over the years ahead.

Let's look at **Costco**, one of our long-standing holdings that we rarely talk about because it doesn't have a lot of razzmatazz. This business rarely appears in our top contributors or our bottom, it just keeps chugging away and we love it just as much as our sexy **Amazons**, **PayPals** or other leading internet disruptors in this growth fund. Costco has a small e-commerce offering, but it's actually old-fashioned big-box retail: the source of irresistible bulk-buying discounts stacked unceremoniously on towering metal warehouse shelving. A staple of American life.

Long before the flywheel of Amazon Prime, Costco was one of the largest membership clubs in the world – which drives incredible loyalty and repeat purchases. We think the secret sauce is the symbiosis of pricing, scale and quality. Most retailers work on gross margins around 25%, yet Costco insists it be lower, with circa 11% gross margins. It reportedly never marks items up by more than 15%. The discounts from suppliers for buying at such scale and the benefits of selling in bulk to its members present a price discount to the consumer that is eye watering. This creates the highest barrier to entry in all of retail. Costco's own label brand Kirkland actually has a reputation for being of higher quality than equivalent branded products... there are unconfirmed stories of Kirkland shirts being made on the same looms as famous premium labels and Kirkland golf balls that are (allegedly) identical to Titleist. More on that [here](#). And it's still growing its store base by 3%. While many US retailers flop as they expand overseas, Costco's slow and steady global expansion has been an unmitigated success. We would like it to be faster in nascent markets like China, where people clearly share Americans' love of a bargain. According to press reports, at the 2019 opening of Costco's maiden Shanghai store there were traffic jams for a 1 kilometre radius, hours queuing for the tills, and a small fight broke out at the rotisserie chicken counter.





Costco sells over 100 million rotisserie chickens every year at \$4.99 (in the US) and they say that will be the price even if they have to sell it at a loss because they're famous for it... and because it's at the back of the store, you must walk past all of the other irresistible bargains. Costco's CFO was so adamant about this that an American food writer once remarked: "In this world nothing can be said to be certain, except death, taxes, and \$4.99 Costco rotisserie chicken."

Costco remains one of the largest holdings in our fund. As investors agonise over pandemic winners and reopening beneficiaries, we exhale and relax as we know that form is temporary but class (and chicken) at Costco is permanent.



James Thomson
Lead Fund Manager

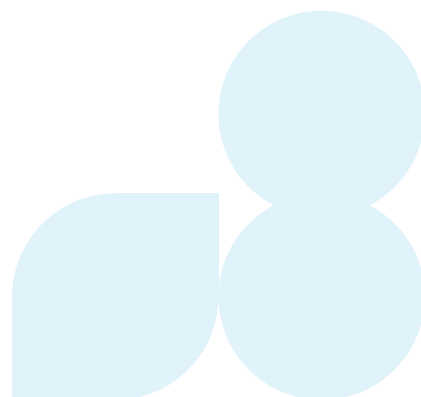


Sammy Dow
Fund Manager

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