Rathbone Greenbank Defensive Growth Portfolio

Quarterly investment update, April to end June 2021

Rathbones
Look forward

Hot topics – 'Top-down' (market and macroeconomic)

Yo-yo yields. After a rapid rise in the first quarter, government bond yields deflated again in the three months to 30 June. The US 10-year yield leapt from near 1.00% at the start of the year to 1.74% three months later, to 1.47% at the death of the second quarter. Other nations' debt has generally followed suit. These are significant moves, and the latest direction is not the one you would expect. Bond yields are still extremely low, and inflation

is high and rising. We still believe inflation will be transitory, but even if it lasts for just a year or two that would eat up a substantial part of your real return on bonds that yield much less than the 2% inflation that central banks target. The large drop in yields suggests that bondholders believe central bankers will make a policy mistake by hiking rates to keep inflation in check, pushing the global economy into recession. But there is also a risk that inflation is higher and more persistent than anyone expects. And with yields so low, you stand to lose more on that scenario than you could gain if inflation does fall away. With so much at stake, investors seem unable to decide which way to go, thus the yo-yo yields. For us, we're trying to limit the duration, or interest rate sensitivity, of our investments while retaining a small position in a spread of governments' bonds as part of our portfolio protection. Meanwhile, we are constantly challenging ourselves on our belief that inflation is just a passing phase. We are watching for hidden transaction costs here in the UK due to Brexit, global supply dislocations from the pandemic, and keeping tabs on labour markets worldwide. This last is the greatest threat, in our view, and it's also where data is most lagged and messed up by the *annus horribilis*. We discuss this in the first episode of our new monthly podcast, ***The Sharpe End***, so tune in if you fancy it!

British bargains. It has certainly been an up and down year so far in the British Isles. Yet with a strong vaccination drive and a vibrant reopening economy, the country looks open for business. And after several years of chronic neglect by global investors, UK shares are looking very good value indeed. We have continued steadily adding to our UK exposure to take advantage. Private equity has certainly noticed too. So far this year private equity firms have bought out 131 publicly traded companies in the UK, totalling £25.7 billion, greater than in the whole of 2020. And the crazy part is that last year's £17.5 billion of deals was a record for Britain. This flood of deals could push the government to step in and stop more foreign acquisitions. We think any greater state intervention is likely to cluster in sensitive areas like technology, medical equipment, pharmaceuticals and the stock exchange, rather than supermarkets or purveyors of cleaning products. Also, geopolitics seems more likely to come into play too. A proposed takeover by a Chinese company may hit the skids where an

American or European suitor would be waved through. Just shows how much has changed since the Cameron and Blair years…

Green growth. Renewable energy is often seen as just a small, hobbyist part of the enormous industry that powers our societies. The green Rebel Alliance to the Galactic Empire of coal and carbon, if you will. An upstart dwarfed by its adversaries. This legacy is no longer true and actually obscures the huge growth in green generation over recent years. Renewables made

up 80% of all new power assets worldwide in 2020, becoming the clear focus for the future energy mix. Almost 40% of global energy production is now renewable. Solar and wind made up the lion's share of new renewable generation, accounting for 48% and 43% respectively. Hydro remains the single largest producer of renewable power, at just more than 40%, yet new assets are more difficult to approve, build and finance, so growth there is much slower. The ascendance of renewables is influencing carbon-heavy incumbents, especially big oil, leaving them vulnerable to activist pressure and higher capital costs. Several have responded by investing aggressively in the clean energy industry. These businesses have tremendous investment budgets, so it should drive even faster expansion of carbon-neutral power. Hopefully, these forays will also encourage more rapid transition from petrol-powered cars and trucks to cleaner alternatives, such as hydrogen or lithium-ion batteries. We need to dramatically reorder how we power our lives and transportation if the world is going to hit its targets on reducing greenhouse gas emissions. The momentum is building. Who knows, by 2050 BP may be clean enough to make it into the Rathbone Greenbank Multi-Asset Portfolios!

Portfolio activity

Key purchases/additions	Key sales/trims
Advanced Drainage Systems (new purchase)	–
Nidec (new purchase)	–
Trimble (new purchase)	–
JP Morgan Asia Developed Emerging Market FX Momentum (new purchase)	–
Kreditanstalt fuer Wiederaufbau 1.125% Senior 2025 (new purchase)	–

Source: Rathbones

As the portfolios have recently launched, there have been no key sales/trims during the quarter.

We own **Advanced Drainage Systems (ADS)** an American plastic pipe manufacturer. These are predominantly large stormwater, sewerage and mains water pipes. Development of new homes in the US has been steadily increasing since 2011 – the pandemic was only a slight hiccup and the trend has continued. These new homes need underground infrastructure and that's where ADS comes in. Added to this growth, many old concrete and cracked metal pipes need replacing and plastic is the solution. Plastic gets a bad rap because of the time it takes to degrade and how it litters our world. And with good reason. However, this long life is exactly why it is the perfect material for pipes – it doesn't rust, rot or corrode and should last for more than a century. ADS is the second-largest recycler of plastic in North America, using old cleaning product and drink bottles, caps and even carpet from kerbside collections to make its pipes. ADS calculates that 330,000 tonnes of carbon emissions are saved by its recycling.

Another business in our portfolio is Japanese electric motors manufacturer **Nidec**. Electric vehicles have come on in leaps and bounds, as have electric-assisted bikes and scooters. Nidec's sophisticated motors are used in all sorts of gadgets. From ultra-thin, shock-resistant cooling fans for computer hard-disk drives, to motors for wind turbines (helps bring them to a stop) and automobiles and electric bikes and scooters (helps them go). Nidec should benefit from several rising trends, including electric vehicle ownership, greater reliance on renewable energy and cloud technology (its motors go into the servers). It should also get a boost from increased industrial production, warehouse activity and general economic growth because its motors go into forklifts, cars and other machines that companies and households tend to buy more of when things are going well. Especially if people take the opportunity to switch to cleaner-energy alternatives.

We also own location services, tracking and land survey firm **Trimble**. A global company based in California, is makes the highly calibrated machines that engineers use to take exact measurements of ground levels and ensure real-life buildings match the plans. The yellow-legged ones you see in the street with robotic laser optics whirring around after high-viz-jacket-wearing surveyors. Or, for those eagle-eyed commuters, the laser machines suspended above Underground platforms to ensure nothing is sinking faster than it should. Trimble has spread far beyond that urban origin and has taken its business into the fields. One of its most exciting divisions uses GPS technology to remotely steer farm machinery, like harvesters. It also designs soil monitoring systems that can pinpoint exactly which areas of a farm need water or fertiliser and those places that don't. Rather than simply throwing water and nitrogen around liberally all over the place, farmers can be much more sparing, saving them money, conserving the world's resources and ensuring the land stays in balance. It's technology like this that really gives us hope about our ability to reduce our impact on the planet.

As part of our 'diversifiers' – those assets whose value moves very differently to stock markets yet aren't suitable to be classed as 'liquidity' assets – we hold the **JP Morgan Asia Developed Emerging Market FX Momentum** structured product. This product sells the dollar and buys a basket of emerging market currencies, or vice versa, depending on the prevailing trend for exchange rates. Because emerging market currencies tend to rise against the dollar when investors are optimistic and fall when they get concerned, this investment should make a return regardless of whether markets are doing well or poorly. However, the trade-off is that an indecisive, see-sawing market would limit the effectiveness of our investment, and potentially cause losses.

We own the German state-owned development bank **Kreditanstalt fuer Wiederaufbau (kFW) 1.125% Senior 2025** in Norwegian krone. Set up in 1948, kFW invests all around the world in projects that improve living standards, protect the environment and fight global warming. We bought this bond in krone to diversify our currency risk – when inflation runs hotter, it tends to push the krone higher.

Spotlight

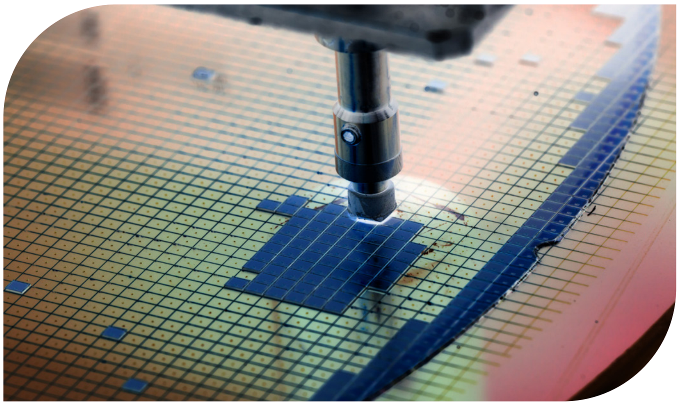
In this quarter, the spotlight is on our holdings **SIG Combibloc** and **ASML**.

SIG Combibloc

- A global leader in aseptic packaging solutions and systems used for a number of consumer food and beverage products including milk and juice cartons
- The company has a number of specialist sustainable food packaging solutions which helps eliminate the need for aluminium, along with the world's first aseptic pack that is 100% linked to plant-based renewable material
- SIG's cartons have a significantly lower environmental footprint than other solutions and focus on renewable wood as the main material in their packaging
- Unique and innovative technology helps to retain nutrients, flavours and colours of food and drink and extends the shelf-life without the need for refrigeration – importantly saving both transportation and storage costs
- SIG's are well positioned to benefit as companies and consumers continue to shift their focus to more affordable, sustainable, and convenient packaging, areas in which SIG leads

ASML

- The blue-chip player globally in the manufacturing of the equipment required to make chips found in a wide range of products including computers, smartphones and medical equipment
- ASML possess significant technological expertise and the deep pockets required to drive innovation to enable microchips to be smaller, cheaper, and more powerful and energy-efficient – this expertise and financial strength drives out competitors
- The design of their products extracts the maximum value from the materials they use, and their equipment systems can last for decades supporting the transition to a more circular economy
- ASML is committed to help make microchips greener by reducing the energy use of their equipment systems through investing in hydrogen systems and more efficient pumps
- Structural shifts to more technology-enabled products should lead to a significant expansion of opportunities for ASML through chip-hungry areas such as electric vehicles, industrials, and artificial intelligence



Fund performance

Top performers (%)		
Holding	Performance	Contribution
Shopify	+32.12	+0.21
Tomra	+28.34	+0.10
Edwards Lifesciences	+23.55	+0.13
Adobe	+23.33	+0.13
SIG Combibloc	+23.06	+0.15

Bottom performers (%)		
Holding	Performance	Contribution
Ball Corporation	-11.84	-0.10
Nidec	-7.53	-0.05
Clorox	-6.36	-0.07
Vodafone	-5.18	-0.05
Littelfuse	-3.94	-0.03

Note: Top and bottom performers are taken from the list of all holdings of 0.25% and above of the portfolio.
Performance and contribution data shown above is based on unhedged GBP capital returns.

Source: Rathbones

It was a pretty positive quarter for all asset classes, so most elements of the portfolio were positive contributors to return with equities leading the way. Within equities our US exposure was the biggest contributor with a few names like **Adobe**, **Edwards Lifesciences**, **Equinix** and **Microsoft** all being significant parts of that performance. European equity made a very solid contribution too with **SIG Combibloc**, **Tomra** and **Eurofins Scientific** providing the larger contributions to that.

Shopify made significant gains over the quarter following stronger than expected Q1 results driven by an acceleration in merchant sales growth. Digital commerce tailwinds remain strong and merchants continue to leverage Shopify's modern commerce technology to compete in the current retail environment. **Roche** also saw a solid rise in their share price led by multiple positive developments including the US Food and Drug Administration's approval of a rivals treatment for Alzheimer's disease, reigniting confidence that Roche's own Alzheimer's treatment in the pipeline could also be approved. They also received the European 'CE mark' for their COVID-19 antigen rapid nasal self-testing kit.

A few names were more of a drag during the quarter including **Ball Corporation** which suffered due to a competitor significantly expanding production. However, overall, we continue to have confidence in their business model long-term which benefits from the structural trends towards a more circular economy and we have added to this name.

As you would expect in rising markets, the put options were the largest drag on the portfolio as the "Best Of" put option moved further out-of-the-money. The price of the resettable put option fell but not by as much as the initial strike was clearly higher, but the resettable element means that we don't lose as much protection at the outset as the market rises due to the strike being able to reset higher. So long as you have been sensible about the price you have paid for your put options and the shape of the protection it offers, getting a drag from put options isn't necessarily a bad thing given that it should mean the your risk assets are performing well.

Asset allocation ranges

Liquidity	Equity-type risk	Diversifiers
5% to 45%	30% to 70%	0% to 45%

Asset allocation

There were no significant asset allocation changes during the quarter.

Asset allocation split	31.03.21	30.06.21	% Change	12 month change
Liquidity assets/lower volatility	35.00%	37.52%	2.52%	–
Equity-type risk (economically sensitive assets)	55.70%	56.89%	1.19%	–
Diversifiers	9.30%	5.59%	-3.71%	–
	100.00%	100.00%		

Asset class split	31.03.21	30.06.21	% Change	12 month change
Equities	46.00%	45.63%	-0.37%	–
Index-linked bonds	0.00%	2.07%	2.07%	–
Conventional government bonds	17.00%	11.25%	-5.75%	–
Corporate bonds	19.40%	22.47%	3.07%	–
Emerging market debt	0.00%	0.00%	0.00%	–
Private equity	0.00%	0.00%	0.00%	–
Alternative investment strategies	9.30%	5.59%	-3.71%	–
Property	0.00%	0.00%	0.00%	–
Commodities	0.00%	0.00%	0.00%	–
Cash	8.30%	12.99%	4.69%	–
	100.00%	100.00%		

Sustainable category split	30.06.21
Decent work	11.58%
Resource efficiency	6.71%
Habitats and ecosystems	0.00%
Inclusive economies	4.33%
Energy and climate	13.78%
Health and wellbeing	11.30%
Resilient institutions	13.32%
Innovation and infrastructure	20.40%
Diversifiers	5.59%
Cash	12.99%
	100.00%

The 'resilient institutions' category includes government bonds.

Investment outlook

Uncertain times can often make people cocksure of their beliefs. That certainly seems to be the case this year.

Everywhere you look, data is patchy, unclear and heavily distorted by the greatest disruption to people's lives and global commerce in the better part of a decade. Comparisons are difficult because a year ago most of the world was locked down. The future is difficult to discern because we're yet to see which changes to shopping, transport and working habits will stick and which will fade away in time. We still don't know how long we will be living with COVID-19 lurking in the background. A year ago, we thought the pandemic would be over in a month or so. Six months ago, we fell into the same trap. The rise of the Delta variant, despite inoculation programmes, just highlights how hard it is to limit the spread of a highly infectious disease, let alone eradicate it.

The good news is that, as societies and businesses, we have shown once again just how adaptable we can be. The pandemic shocked businesses and people, offering us all the chance to pause, take a breath, and rethink how we work and live. Flexible working has been technically possible for years, yet its benefits for focused work and reducing unnecessary travel weren't recognised. Now that they have been proven, this should have huge benefits for productivity, living standards and congestion. Shuttered businesses had to shovel money into technology to ensure they could operate remotely and to ensure they could sell online. Arguably many companies were very slow in embracing the digital age, but the pandemic suddenly made it an imperative.

These dynamics, both positives and negatives, have whipped up the whirlwind of change that makes forecasting so difficult. We have started to become a little uneasy about just how adamant many investors have become about what the future holds. There seem to be two camps, equally sure that they are right. The first, and probably largest, group are those who believe the recent spike in inflation will be "transitory" and growth will return to pre-pandemic levels without any requirement for central banks to hike interest rates. The other group believe that we are entering a new era of persistent inflation above 2% that will send rates higher, squeezing high-valued stocks and bonds.

We think inflation will be a passing phase, but we are constantly challenging ourselves on this assumption. Also, we're not so sure what other investors consider to be "transitory". For us, we think it's quite likely that inflation will still be slightly above the 2% target in a year's time. But other people may think that "transitory" means it will have all died down in a few months. That misunderstanding could spark some panic and market dislocation.

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Rathbones
Look forward

Past performance should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and you may not get back your original investment.

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