Rathbone Unit Trust Management

Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone UK Opportunities Fund

Quarterly update September 2021

In the third quarter, your fund returned 6.2% versus an average 2.7% increase in the IA All Companies sector.

	3 months	6 months	1 year	3 years	5 years
Rathbone UK Opportunities Fund	6.2%	14.7%	37.2%	26.8%	53.1%
IA All Companies Sector	2.7%	8.5%	32.4%	15.5%	38.5%
FTSE All-Share Index	2.2%	8.0%	27.9%	9.5%	29.8%

	30 Sep 20-30 Sep 21	30 Sep 19-30 Sep 20	30 Sep 18-30 Sep 19	30 Sep 17-30 Sep 18	30 Sep 16-30 Sep 17
Rathbone UK Opportunities Fund	37.2%	3.7%	-10.9%	7.3%	12.5%
IA All Companies Sector	32.4%	-12.8%	0.0%	5.5%	13.7%
FTSE All-Share Index	27.9%	-16.6%	2.7%	5.9%	11.9%

Source: FE Analytics; data to 30 September, I-class, mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future performance.

After many months of strong equity markets (and strong outperformance from your fund), September felt like a turning point (albeit one which didn't much surprise us). Companies, consumers, central bankers and investors have become tangibly more concerned about supply chain shortages, spiking energy prices and tight labour markets, all of which have put upward pressure on inflation. And this coincided with a softening in global growth figures, thanks to the Delta variant. Growth is trending down and inflation is trending up (although not many months ago it was at very low levels). Our biggest concern is a policy mistake from central banks: raising interest rates to combat 'cost-push' inflation (with the 'push' this time driven largely by the energy crunch) rarely works well. Higher interest rates won't produce truck drivers or more container ships. But they will drive investors to want to own more 'value' or cyclical stocks whose performance is more positively correlated to rising rates. This would be a headwind to our fund's performance: we prefer to own high-quality companies that can grow through the business cycle.

Post-pandemic pressures have begun to bite

The good news is that global COVID-19 cases have decisively rolled over which will help to un-gum supply chains, ease pricing pressures and boost consumer confidence. Demand remains strong, which is very positive. However, logjams will take months to clear so we expect that the uniformly positive tone to company earnings earlier this year has now been consigned to the rear-view mirror. As we said last month, we believe that equity market performance will be more tied to company-specific results for the rest of the year. We expect that those companies of ours able to recover some cost inflation will do well (equities as an asset class tend to be a great hedge against inflation).

The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

The third quarter as a whole was very strong for our fund, thanks to July and August showing major outperformance that was only somewhat offset by September's fall. It was a month to sell your winners, but that's not our strategy for the long term. Our FTSE 250 positions continued to benefit from a surge in merger and acquisition (M&A) deals, inflows back into the UK market and some aggressive multiple expansion. The FTSE 250 (+3.5% over the quarter) outperformed the FTSE 100 (+2.0%) as well as the FTSE World (+2.0%), while AIM put in a rare negative return. All in all, this provided something of a mixed backdrop for the fund, but stock selection kept us moving forward.

Tech continues to shine, some reopening plays are struggling

Our large tech-led holdings, like digital consultancy **Kainos**, software recruiter and training provider **FDM** and online publisher **Future**, once again proved their worth. These are high-quality cash-backed businesses which still trade more cheaply than their global (i.e. US) counterparts, while giving investors exposure to the digitalisation mega-trend. Technology and industrials remain our biggest overweight sectors.

Not owning any fossil fuel or commodity companies was a headwind as oil prices rose rapidly in September. Our zero weighting in these areas means we often perform very differently to our benchmark, but these stocks don't fit our investment process of seeking out the UK's highest quality and fastest growing companies. We do own one renewable energy company: fuel cell manufacturer **Ceres Power**.

Our reopening plays proved pretty insipid during the quarter. Uniform and linen supplier and launderer **Johnson Service Group**, for example, benefited from UK staycations over the summer, but has warned it is struggling to fill staff vacancies in its laundries, which will reduce its margins.

We enter the final quarter of the year with fewer supports and more challenges for markets to face down. We expect bond yields in the US and UK to continue their march higher, and this will likely lead to our fund underperforming in coming months. Over the medium term, however, we see a clear cap to yields thanks to the sheer amount of debt that governments have taken on and continuing soft GDP growth around the world. The risk to earnings into year-end looks to be on the downside. We have courage in our convictions and won't be chasing value names through this stormy patch. Instead, we will be sticking with our quality growth stocks which we firmly believe are capable of posting resilient reliable earnings whatever the weather.

Alexandra Jackson
Fund Manager

Any views and opinions are those of the investment manager, and coverage of any assets held must be taken in context of the constitution of the fund and in no way reflect an investment recommendation. 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.

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

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

Authorised and regulated by the Financial Conduct Authority

A member of the Investment Association

A member of the Rathbone Group. Registered No. 02376568

7519.10.21