

Rathbone SICAV Multi-Asset Total Return Portfolio

Quarterly investment update, April to end June 2022



Rathbones
Look forward



This is a marketing communication

Hot topics – ‘Top-down’ (market and macroeconomic)

Ebbing power. As Russia's war in Ukraine grinds on, the continued flow of gas to Europe gets ever more precarious. Supplies have already been shut off completely to five smaller nations, while six more (including Eurozone engine rooms France, Germany and Italy) have had their consignments



severely curtailed. Yet more cuts could be on the cards. Ironically, an exceptionally hot summer has led to unseasonably high energy demand because of people cranking up the air-conditioning. European countries – including the UK – have done well finding alternative energy import partners, yet completely reconfiguring your energy complex takes more than a few months. Continental gas prices have shot roughly 60% higher since the end of March. Put another way, the benchmark European gas price is now almost nine times the average price of the past decade. When you get down to brass tacks, energy is key for economic activity. You need people, sure, but without energy you have no technological uplift. Bluntly, it's the difference between you putting together your flatpack furniture with a screwdriver or doing it with a power drill. The extra cost of power – and don't be fooled, natural gas is the keystone of most European power grids, accounting for a quarter of all energy use – will make Europe's potent manufacturing sector less competitive and squeeze its people's wallets, hurting cafes, bars, restaurants and retailers. This is why we're worried about the potential for recession in Europe and the UK this year.

Fixed income foxtrot. Bonds are often thought of as the boring market, yet they have been absolutely wild so far this year. Hopes, dreams and despair have flowed through yields as investors flick from fear to optimism and on to different concerns in a restless foxtrot. This has been happening week to week and often day to day. The three broad scenarios swirling round are: the risk that inflation lingers higher and longer than anyone wants; that higher costs crimp the spending of households and businesses, causing a recession; and the gold-toothed rooster itself – that inflation fades quickly allowing central banks to slow their interest rate hikes. Ten-year government bond yields, on both sides of the Atlantic, have fallen back about 50 basis points or more from their mid-June peak after a series of worrying economic data. The yield drop was more pronounced in Europe and the UK, because of the recession risk we noted before. Even after the pullback in yields, we think investors are assuming too many rate hikes over the coming months. The global economy seems just too fragile for the phenomenal tightening that markets are implying. Because



of this, we think bond yields are finally starting to look attractive again. The inverse relationship between bond and stock markets is starting to reassert itself, which makes them much more helpful for portfolio diversification.

Earning respect. As for stock markets, the upcoming earnings season will be more revealing than ever. With the wider



economy a whodunnit and nerves running high about how central banks will proceed, investors are eager to hear how companies are feeling. The probability of recession has risen significantly so far this year, and cost pressures for businesses are high because of rampant inflation... yet earnings forecasts haven't dipped at all. Consensus profit estimates from analysts are pretty high, given the circumstances, yet it seems like investors themselves are expecting disappointments. Outlooks will be watched closely for signs of impending disaster (even small, cautious asides tend to cause punchy falls these days). We think the reported results will differ markedly company by company, as will the commentary around what the future may bring. It will no doubt be another volatile period, one that we hope will throw up some opportunities to take profits and add to quality companies at a discount.

Portfolio activity

Key purchases/additions	Key sales/trims
Nvidia (new purchase)	UK Treasury 4¼% 2032 (sale)
Co-operative Group 6.25% 2026 (new purchase)	UK Treasury 7/8% 2029 (sale)
US Treasury 1.875% 2032 (addition)	US Treasury Inflation-Protected Securities (TIPS) 2024 (sale)
Australian Government 1% 2031 (addition)	Shell (trim)
Heathrow Funding 7.125% 2024 (addition)	Lockheed Martin (trim)

Source: Rathbones

We switched from the **UK Treasury 4¼% 2032** and **7/8% 2029** bonds to the **Australian Government 1% 2031** while fixing the exchange rate of the Australian dollar to protect ourselves from currency fluctuations. We did this because the Aussie treasury offered a much better yield for a similarly safe government bond, even when taking into account the cost of hedging the currency. We also sold **US Treasury Inflation-Protected Securities (TIPS) 2024** and bought the **US Treasury 1.875% 2032** instead. Prices of TIPS are assuming a huge amount of inflation, so we were taking profits and reinvesting in more attractively valued bonds.

We took advantage of large falls in the price of corporate bonds to buy quite a lot of high yield and investment grade bonds. The high yield markets were very gummed up in April, yet liquidity returned in May allowing us to pick up some bonds at attractive prices. These included the **Co-operative Group 6.25% 2026**, **Heathrow Funding 7.125% 2024**, **Marks & Spencer 4.75% 2025**, **Travis Perkins 3.75% Senior 2026**, **Thames Water Finance 4.625% 2026** and **Rolls Royce 3.375% Senior 2026**.

We also bought computer graphics processor designer **Nvidia**, which makes some of the best components in the industry, with a particular stranglehold on computer gamers. This business joins our basket of gaming related businesses, including **Activision-Blizzard** (which is being bought by **Microsoft**) and **Take-Two Interactive**. Gaming has grown massively in the last couple of decades and we believe this will continue. Nvidia had fallen more than 35% so far this year, giving us an attractive entry point to what is, in our view, a high-quality and market-leading business.

Spotlight

In this quarter, the spotlight is on our **Discover Financial Services** and **Home Depot**.



Discover Financial Services

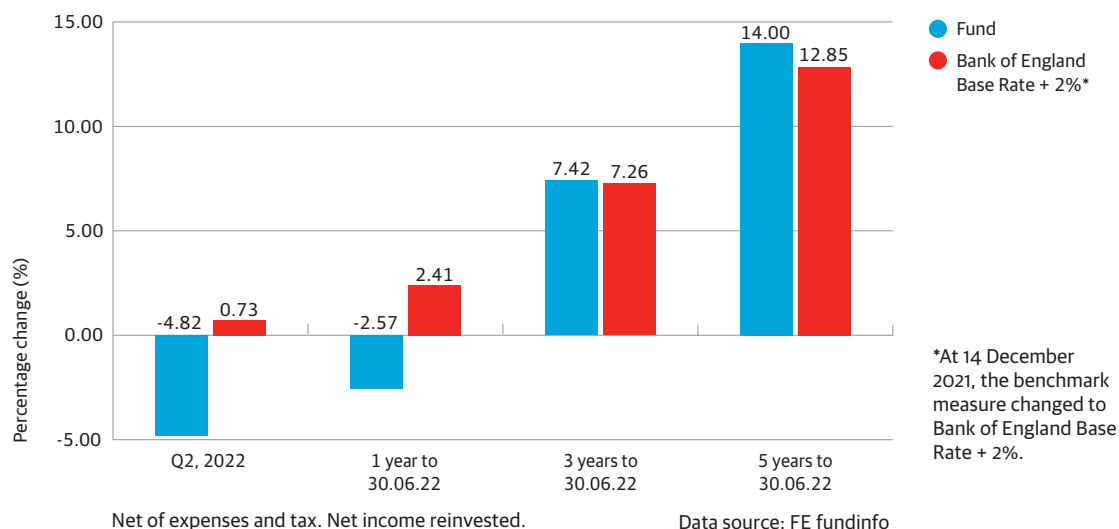
- Loans, credit cards and payment services business (owns Diners Club International) – one of the largest credit card companies in the US and aims to be the top card in their customer's wallet
- Typical customer has a good credit score, above average income, and is a property owner – they actively target high quality customers rather than sub-prime, and approach which we believe offers more resilience during economic downturns
- Customer service is a key focus for the business – mostly online with highly rated apps, people answering phones rather than machines, innovative, and a well-recognised brand
- Average customer has been with them for around 12 years – service focus helps foster loyalty
- Focuses on customer experience, innovation, and employee satisfaction has led to numerous awards and leaves the business well positioned to continue to benefit from the strength of the US consumer

Home Depot

- The US home improvement business that services both retail and trade (Pro) – they are the world's largest home improvement retailer and the second largest retailer in the US
- Much time, effort, and money has been spent on strategic projects to improve the customer experience in both retail and trade channels – this work is vital in securing Home Depot's position in the face of competition from physical and ecommerce competitors
- In their "Pro" channel, which accounts for around half of sales, the company has vastly improved its capabilities around loyalty programmes and personalised service, a drive which has allowed them to focus on more planned purchases rather than unplanned, which had previously been where they were used most in the "Pro" channel
- Where Home Depot's customer focus in retail can be seen the best in via their app which not only allows you to look for products, but when in store can be used to scan barcodes for more product information, has a geo-location feature which will tell you exactly where a product is for those quick purchases when you want to be in and out, and has an augmented reality (AR) function so customers can see what those new taps would look like on their sink
- For Home Depot, the customer is king and this focus on making the shopping experience more efficient, more personalised, and more seamless is why we believe they can continue to be a leader for many years to come



Fund performance



Discrete annual performance					
Year to:	End Jun 2018	End Jun 2019	End Jun 2020	End Jun 2021	End Jun 2022
Fund	+1.46%	+4.60%	+1.71%	+8.40%	-2.57%
Bank of England Base Rate + 2%	+2.42%	+2.73%	+2.59%	+2.10%	+2.41%

Our benchmarks are calculated on the rate of change of the CPI index, over different time periods (e.g. if we were calculating year to date figures in January 2021, we would look at the percentage change from December 2020 to the end of January 2021). So we take CPI to the current value, and add on 3%, prorated over a year (roughly 0.25% per month). If the CPI Index benchmark were to fall, more than the amount pro-rata, the benchmark year-to-date will be negative, even though inflation as reported by the media (calculated specifically as a 12M rate of change), remains positive.

The performance shown is for our 0.5% (L-class) annual management charge share class. Some of our existing clients may be invested in a more expensive share class, the performance for which will therefore be lower. Factsheets for all share classes showing our charges and respective performance are available on request, free of charge or on our website rathbonefunds.com.

Past performance does not predict future returns. For further information on risks and costs, please read the Prospectus and Key Investor Information Documents (KIIDs), available for free at rathbonefunds.com. 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.

The investment objective of the sub-fund changed on 25 March 2019 due to the sub-fund ceasing to be part of a master feeder arrangement. Therefore, performance in the chart shown prior to this date was achieved under differing circumstances.

Top performers (%)			Bottom performers (%)		
Holding	Performance	Contribution	Holding	Performance	Contribution
Société Générale US rates Volatility Trend Note	+20.21	+0.34	Shopify	-49.33	-0.23
AIA	+13.10	+0.09	Dexcom	-36.26	-0.24
Total	+12.88	+0.07	Kion	-32.01	-0.12
Coca Cola	+10.76	+0.07	Ashtead	-29.69	-0.05
Amgen	+9.91	+0.05	Amazon	-28.20	-0.19

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. Performance (table above only): Gross of charges.

Source: Rathbones

Fund performance (continued)

As the second quarter of 2022 proceeded, we began to see a little less of the commodity-centric and value-based performance from markets that was characteristic of the first quarter of the year. Instead that environment gave way to a broader risk-off sentiment that began to impact all risk assets as investors seemingly began to move to price in the increased risk of recession. Some of our protective assets within the Diversifiers component of the fund helped during the quarter, with the **US rates volatility notes** again benefitting from additional volatility in US rates and making a meaningful positive contribution to fund level returns. Our **Nasdaq put option** which expired in late April also provided support in the early part of the quarter and expired slightly in the money (index price below the strike on the put option). Finally, the **commodity curve note** we added late in the quarter to bolster our uncorrelated sources of return immediately made a positive contribution to the fund.

Again, our holdings in **Shell** and **Total** contributed positively along with our **commodity ETF** exposure, but to a far lesser degree than in the first quarter. We also had some support from more defensive names such as **WEC Energy**, **Coca Cola**, and resilient cosmetics retailer business **Ulta Beauty**.

Given the falls in equity markets it is of course no surprise that equities overall were the largest performance detractor. US equities were again the largest detractor. **Shopify** continued to see pain from the move away from growth stocks on top of a weak first quarter exacerbated by their announcement of further capex to bolster their fulfilment capabilities. We remain confident that Shopify have the right long-term strategy to be a key player in the ecommerce channel in helping small and medium-sized enterprises sell effectively online and move to have their own brand identities. **Dexcom** was also a key detractor from performance as the stock sold off meaningfully given its premium valuation. However, to us Dexcom remains a very high-quality business who has the market leading CGM device for the monitoring of the blood glucose levels of diabetes patients. Sadly, diabetes continues to be on the rise globally and the CGM devices sold by Dexcom help medical professionals provide better clinical outcomes via more closely, and accurately, monitoring patients.

Asset allocation ranges

Liquidity	Equity-type risk	Diversifiers
10% to 50%	20% to 60%	0% to 50%

Asset allocation change and strategy

We reduced our cash significantly to add to UK investment grade bonds and diversifiers.

Asset allocation split	31.03.22	30.06.22	% Change		12 month change	
Liquid assets	38.49%	28.29%	-10.20%	▼	-10.36%	▼
Equity-type risk	40.73%	45.70%	4.97%	▲	1.26%	▲
Diversifiers	20.78%	26.01%	5.23%	▲	9.10%	▲
	100.00%	100.00%				
Asset class split	31.03.22	30.06.22	% Change		12 month change	
Equities	34.94%	34.64%	-0.30%	▼	-1.70%	▼
Index-linked bonds	7.36%	6.46%	-0.90%	▼	0.16%	▲
Conventional government bonds	26.56%	20.83%	-5.73%	▼	-2.80%	▼
Corporate bonds	8.94%	14.34%	5.40%	▲	0.36%	▲
Emerging market debt	0.00%	0.00%	0.00%	◀▶	-0.56%	▼
Private equity	0.52%	0.42%	-0.10%	▼	-0.11%	▼
Alternative investment strategies	5.36%	9.06%	3.70%	▲	3.51%	▲
Property	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Commodities	8.20%	8.98%	0.78%	▲	3.70%	▲
Cash	8.12%	5.27%	-2.85%	▼	-2.56%	▼
	100.00%	100.00%				

The fund is actively managed.

For more information on our liquidity, equity-type risk and diversifiers (LED) risk framework, please consult our investor brochure.

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Investment outlook

Weak sentiment surveys – from households through to businesses and investors – have combined with disappointing retail sales and Purchasing Managers' Index (PMI) readings to renew worries about a global slowdown. The cost of living has skyrocketed all over the world, pinching many people's spending power. Meanwhile rapid rises in the cost of labour and raw materials have tripped up more than a few companies reporting earnings.

Still, these concerns clash with the sugar rush from reopening, driven by pent-up savings and boredom. At least for now, to paraphrase Cyndi Lauper, many people still seem to want to have fun. Flights are full again, and restaurants and pubs seem to be doing alright. But the question is how quickly people may rein in spending as the summer of high prices rolls on. Wages are rising though, which could offset some of the effects and support spending.

We're feeling better about the prospects for the US, rather than Europe and the UK, where the Ukraine war and upended energy markets are having a greater impact. This year has been a painful one for holders of US companies, yet we remain comfortable with our exposure to these businesses and have added steadily to them throughout the quarter's drawdowns.

Meanwhile, it's bye bye for Boris Johnson after one scandal too many. The Prime Minister's widespread popularity with voters gave him more lives than a pack of cats, yet the final straw was two crushing by-election defeats: one in the 'Red Wall' that he had three years ago delivered to his party and the other in a supposedly safe seat won by roughly 20,000 votes in each of the past three elections. Like clockwork another booze-fuelled scandal appeared for the government, giving 50 ministers and appointees the excuse to resign. Johnson finally decided to go himself, sparking another monkey knife fight for the leader of the Conservatives and the keys to Number 10.

The effect of Johnson's resignation on the UK market and sterling shouldn't be overstated. Given the government's poor polling and the recent by-election defeats, together with the cost-of-living crisis, the Conservatives are highly unlikely to hold a general election until they absolutely have to – likely in January 2025 because of The Dissolution and Calling of Parliament Act. So this will simply be a case of swapping one Conservative leader for another.



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by the Commission de Surveillance du
Secteur Financier

Rathbones
Look forward

Please note that the Rathbone Luxembourg SICAV may decide to terminate the agreements made for the marketing of the fund pursuant to Article 93a of Directive 2009/65/EC. For a summary of investor rights and guidelines regarding an individual or collective action for litigation on a financial product at European Union level and in the respective country of residence of the investor, please refer to the following link: rathbonefunds.com. The summary is available in English or an authorised language in the investor's country of residence.

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.

Please refer to the Prospectus of the UCITS and the KIID before making any final investment decisions.

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.