Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Global Opportunities Fund

Quarterly update September 2022

In September, your fund returned -5.9% versus a -5.5% average fall for the IA Global sector. In the third quarter, your fund gained 3.1% versus an average increase of 1.8% for the IA Global sector.

Global equities posted some impressive gains during the summer, but they quickly faded as hopes of inflation falling and a pivot to easier monetary policy from the US Federal Reserve evaporated. The motto in September was, "Sell first, ask questions later," as it yet again earned its notoriety of being one of the worst-performing months for equities.

	3 months	6 months	1 year	3 years	5 years
Rathbone Global Opportunities Fund	3.1%	-13.7%	-18.3%	24.5%	60.2%
IA Global Sector	1.8%	-8.4%	-8.9%	20.3%	42.3%

	30 Sep 21-30 Sep 22	30 Sep 20-30 Sep 21	30 Sep 19-30 Sep 20	30 Sep 18-30 Sep 19	30 Sep 17-30 Sep 18
Rathbone Global Opportunities Fund	-18.3%	19.6%	27.4%	3.6%	24.3%
IA Global Sector	-8.9%	23.2%	7.2%	6.0%	11.6%

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

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

Another failed bear market rally this year and many are throwing in the towel as investor sentiment broke records for negativity. But we still see reasons for optimism as the initial strength of the summer rally — up more than 15% from the lows in June — gives us a taste of how sharply the market will recover when macro conditions and a hawkish Fed ease.

In the meantime, markets are rocky and investors twitchy as everyone waits for the wave of inflation to break and roll back. For British investors, the phenomenally strong dollar has provided a cushion for the falls in American stocks. Our fund is no exception: two thirds of our holdings are in US equities, which has softened the falls considerably. To show the sheer scale of the currency effect, over the past year the MSCI World global stock index has fallen about 17% more in dollars than in sterling.

Given the energy crisis unfolding in Europe, we think the US is most likely to be first out of the inflation-driven crisis, which reaffirms the case for our large position there. The dollar often acts as a safety valve during market dislocations, yet it will weaken when global stocks rally.

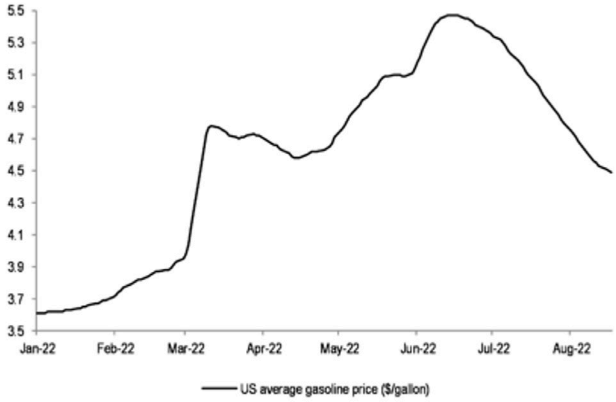
Stocks usually do well after inflation peaks

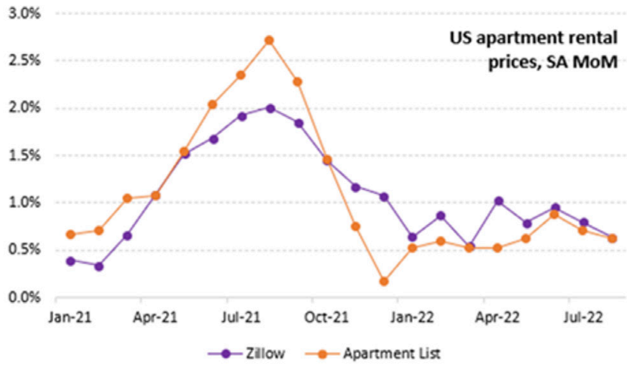
Dates: 1953 Through April 2022
Source: Bureau of Labor Statistics, Game of Trades
Average of the S&P 500 levels in each of the 12 months prior to and post-peaks in inflation across 18 episodes. S&P 500 = 100 at the peak.

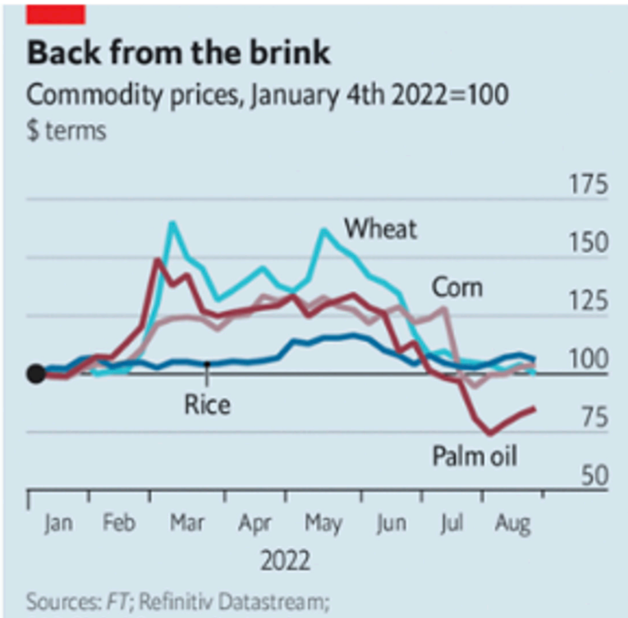
Evidence from the 1970s suggests that the outlook for equities hinges on dampening consumer demand enough to subdue inflation, but not so much that it badly damages the economy. Inflation is still too high and the Fed is unambiguously hawkish about driving rates higher. That means a stronger dollar and an inflationary bear market in equities for the coming few months. But when inflation drops, perhaps aided by some weakening of the red-hot jobs market — as long as unemployment doesn't soar — equities should rip and investors will barely have time to believe it or react.

Most investors have been too optimistic for too long about just how quickly inflation would start to recede, yet recent data points do encourage us that inflation is poised to fall from these record levels...

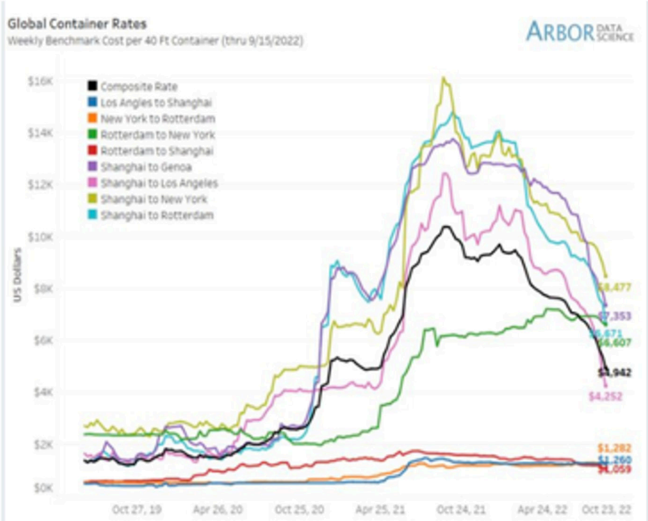
Inflation should start to roll ...







Source: JPMorgan, Zillow, Apartment List, Vanda



datacentre arbornesearch.com
Data Source: Brewery World Container Index

Rubbish businesses are good in rubbish times

Our top performers this quarter included our defensive weatherproof holding in **Waste Connections**, the North American garbage collection business. Waste Connections' contracts are linked to CPI, which have kept its revenues and profit margins buoyant. A high proportion of its revenue is in towns and cities where it's the only operator. The current downturn isn't the company's first rodeo, either: its residential and commercial businesses have proven resilient in past recessions. In 2008, Waste Connections still posted +3% organic growth. The average cost for its residential customers' trash collection is $35-$40 per month. We think few customers are going to stop getting their bins emptied if prices rise modestly — especially when you consider the typical American's cable bill is $200-$300 per month and month-old rubbish really stinks. Meanwhile, for businesses, garbage collection is estimated to be about 1% of total operating costs.

Q3 2022 top contributors	
Waste Connections	10.2%
Deere	13.6%
Charles Schwab	14.6%

Q3 2022 bottom contributors	
Adobe	-24.5%
Nvidia	-21.3%
Rightmove	-14.6%

Source: StatPro, Rathbones; total share price returns, data in local currency

Tractor and farming machinery manufacturer **Deere's** business tends to follow the agricultural equipment replacement cycle rather than the typical business cycle. Today, the average age of farm equipment is the oldest since the 1960s. Yet we need a generational productivity change to ensure enough food to feed all the extra mouths in the world, along with lower carbon intensity to keep climate change at bay. We think this should accelerate the replacement cycle beyond just the age of the equipment.

It takes a long time to convince farmers to embrace equipment with technology — more complexity, more to go wrong they think. This is true to a point, but better use of technology can also vastly improve farmers' efficiency, yields and bottom lines, as well as their health. Auto-steering can make prepping paddocks less strenuous on the mind and body. Planter technology can put a different seed in a different hole based on differing soil conditions, using spacing or depth. See & Spray is a Deere-patented camera system which can recognise different plants before determining whether to spray with fertiliser or weed killer, therefore drastically cutting back chemical usage. All of this improves yields, which are higher in the US than anywhere else in the world. Large farms are really driving adoption, as with most technological advances. Brazil is also a big adopter. The next move for Deere is to get farmers to accept a recurring revenue model — a per acre payment for service — where autonomy, automation and next-generation upgrades are provided as an ongoing subscription tied to the job's success rather than just a pure upfront sale. This recurring-revenue model would attract a meaningfully higher price-earnings multiple.

A certain tension

Creative industries software developer **Adobe** sold off sharply in September when it announced a very expensive acquisition of rival design software business Figma. This business posed a threat to Adobe as more and more design activities were taking place out of Adobe's ecosystem. However, the cost to future returns to eliminate this threat has been high. Computing graphics card designer **Nvidia** warned its profits were deteriorating as demand for its gaming GPUs fell sharply, with its customers' inventories running high. We believe that this company remains highly innovative in the two fast-growing areas of gaming and data centres, but the near-term demand picture is cloudy. These companies illustrate the tug of war between short-term fundamentals and longer-term leading positions in some of the most meaningful market opportunities for growth. We're sticking with both for now.

A similar tension exists for the global economy, too. The world looks grim at the moment as inflation runs hot, energy markets become precarious and trade links remain ragged due to the pandemic and its aftereffects. Yet longer-term, there are so many new technologies that can be deployed to improve our lives. Over the coming years, hundreds of millions of people in the developing world will become more affluent, creating massive opportunities to supply their material desires. There are challenges, but we have the tools to face them.

This is why we always bang the drum for investment. Because it's when markets are weak, when skies are dark, that people forget how far human endeavour has come and how much farther it can go. It's in times like these that a share of that future comes cheap.

James Thomson
Lead Fund Manager

Sammy Dow
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 what you originally invested.

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