

RATHBONE SICAV MULTI-ASSET TOTAL RETURN PORTFOLIO

QUARTERLY INVESTMENT UPDATE
OCTOBER TO END DECEMBER 2023

This is a marketing communication. Please refer to the Prospectus of the UCITS and the KID/KIID before making any final investment decisions.



HOT TOPICS – ‘TOP-DOWN’ (MARKET AND MACROECONOMIC)

Santa rally. Counterintuitively, a gruelling 2023 was a good year for investment returns. Stock markets soared (UK excepted), while corporate bond prices rose rapidly as well. Even government bonds made positive returns in a year of central bank tightening. The driver of this strong year was a large fall in prevailing bond yields towards the end of the year as investors first hoped for and then pre-emptively celebrated a 2024 of falling central bank interest rates, muted inflation and absent recession. It was an old-fashioned Santa rally: the returns came before the presents were handed out.



As far back as August we thought that global interest rates – as set by the world's most important central bank, the US Federal Reserve (Fed) – had peaked. Inflation, while bumpy, was clearly falling, even as global economic growth was holding up better than expected. The US economy was practically flying, though, and we felt that the Fed was unlikely to start cutting interest rates in 2023 or the first half of 2024 because it would risk putting the bellows to inflation. In December, Fed Chair Jay Powell seemed more disposed to cuts in the first half of 2024, as long as inflation fell back to the 2% target (it was 3.1% in November). While rate cuts are no doubt on the horizon, we still think investors may be getting overexcited about how quickly they will arrive. Perhaps the big variable now, rather than inflation, is US economic growth. If it continues to power ahead, the Fed will find it difficult to justify reducing borrowing costs. If it begins to falter, then the door to lower rates opens. Unfortunately, GDP growth is an extremely lagging number – you won't know it's slowing till months after it's started!

In the face of this watershed, we're trying to keep our portfolio balanced. We take profits from stocks and bond that have had particularly strong runs and recycle that money into holdings that have dipped yet still have exciting prospects over the next five years or more.

Global crossroads. The world is no longer as homogenous as it once was. While the US economy has boomed, the UK, Europe and Asia have faded. And while the economic fade hasn't been as bad as many expected, it's stark when compared with the US. These divergent paths – and the divergent central bank policies that are being applied – are causing some large swings in both stock and bond prices as investors weigh up the relative rates of return on offer in different regions.

Here in the UK, with inflation at 3.9%, the Bank of England (BoE) is adamant that it won't be cutting interest rates anytime soon – in fact it's still leaning toward more hikes than cuts. That's despite the economy slipping into recession territory and many households struggling as they refinance mortgages at treble the monthly payments and rents going stratospheric. Bond investors aren't buying it: UK government bond prices now imply a 25-basis-point cut to 5.0% by May and a roughly 1.4% drop in the BoE's bank rate over the whole of 2024. We are also sceptical, and think that the BoE will have to ease pressure on households and businesses if recession sets in during the first quarter and unemployment starts to rise.

Europe is in a similar position following the Fed's 'pivot' to more accommodative policy. Like the UK, its central bank is on a 'higher for longer' footing even as its economy struggles. And also like in the UK, investors are expecting the European Central Bank to fold and begin cutting rates in early 2024. China fell into deflation in the summer, i.e. general prices for goods and services are falling, rather than rising. China is struggling with a massive property bubble where developers, local governments and households have borrowed huge amounts to build and buy millions of speculative properties that no one needs. Some aren't even finished. [Deflation makes those debts grow in real \(inflation-adjusted\) terms.](#) The deflation is partly caused by



the heavy overhang of debt, but it also makes the burden of those debts worse. In short, it starts a toxic feedback loop which hamstring economic growth.

China is still growing at an estimated 5%, however, and is actually convincingly overshooting what the IMF's World Economic Outlook had expected a year ago. No doubt aided by cheaper energy from, and increased commerce with, Russia in the aftermath of its invasion of Ukraine and subsequent sanctions by the West. However, many companies we see suggest the picture on the ground is far from as rosy as the headline numbers suggest. A heavily debt-laden Chinese trade partner is Japan. Its economic growth slumped unexpectedly in the third quarter as households and businesses abruptly stopped spending in the third quarter.

More than ever, the US seems to be the sole engine of economic growth. This may well encourage investors to put yet more money into the sunny uplands over the Atlantic and shun the problematic, yet often heavily discounted, markets elsewhere.

HOT TOPICS – ‘TOP-DOWN’ (MARKET AND MACROECONOMIC) (continued)



Energy converted. Even during gloomy times in the 21st century, it's worthwhile to take a moment to consider how lucky we are. Yes, things go wrong, problems can seem intractable and the world can seem to be going to hell in a handbasket. Yet globally, the number of people in poverty has fallen rapidly and the tools we have to live, work and keep in touch with each other are more powerful than ever before. These two facts are opposite ends of the same rope: the tools, technology and institutions that we've developed are why so many more of us enjoy better living standards, both in the developed and developing nations.

The amount of value that we can extract from a given hour of work, a pound of investment and a litre of fuel, is much higher than in the past. And this is acutely true in the developed world, where modern technology is deployed more fully. Because we need much less fuel for a given output than in the past, some

argue that we're much less susceptible to rising energy costs than in the past. Yet that's disputed by others because energy becomes yet more crucial as technology improves – without it, our productivity tumbles drastically and we shuffle back toward the stone age.

For us, we look at the effect: when energy prices spike, households complain, businesses increase prices and governments rush to subsidise and support (as we saw in the aftermath of the pandemic and the invasion of Ukraine). It may be that higher energy prices affect developed world societies less than in the past. Yet when petrol is more expensive, punters feel less confident about the future. And when gas and electricity prices soar governments tremble. Changes in the price of energy cause changes in economic behaviour, so whether we're empirically more or less sensitive than in the past is sort of a moot point.

Because most of today's productivity boost comes from technology, which requires power, it's fair to say that economic activity today is simply energy converted. You can see echoes of that truth in the price of oil. When economic growth is expected to fall, demand for oil falls and the price of a barrel with it (supply expectations kept constant). That seems to have happened in the tail end of 2023, except with some added supply swings. From roughly \$90 a barrel in September and October when global economic demand was growing and the emerging market OPEC oil cartel was squeezing supply, Brent oil is now trading around \$75 as America produces more barrels than expected and global growth eases. That's a significant drop which could help buoy consumers and businesses all around the world who have come through a tough 2023. Whether it continues is yet to be seen.

PORTFOLIO ACTIVITY

Key purchases/additions	Key sales/trims
JP Morgan 5.13% Dispersion Note 2025 (new purchase)	UK Gilt 1.5% 07/22/2026 (sale)
UK Gilt 1.125% 01/31/2039 (addition)	Premier Foods Finance 3.5% 10/15/2026 (sale)
US Treasury 3.5% 02/15/2033 (addition)	Rio Tinto (sale)
GCP Infrastructure (addition)	Ferguson (trim)
International Public Partnerships (INPP) (new purchase)	Shopify (trim)

Source: Rathbones

Because we think that rates have peaked, both here and in the US, we've been in the habit of buying government bonds when yields pop higher. These included the **US Treasury 3.5% 2033** and the **UK Treasury 3.75% 2052**.

Because we think central banks are now done raising rates, we've been buying assets that seem well priced for a coming period of falling bond yields and borrowing costs. Part of this shift is picking up infrastructure companies whose prices have been battered by increasing bond yields. These companies own the roads, railways, mobile data facilities, electricity networks and hospitals that we simply can't do without, recession or not. Some of them literally keep the lights on. We've continued buying **HICL Infrastructure** and **GCP Infrastructure** at a discount. We added another infrastructure investment company to our portfolio as well: **International Public Partnerships**. It part-owns the UK's largest gas distribution network, Cadent, and the Thames Super Sewer. It has stakes or fully owns many other projects, predominantly in the UK but also abroad.

We expect the jerky sort of volatility – both up and down – that encapsulated 2023 to continue for the foreseeable future, which is why we bought the **JPMorgan 5.13% Dispersion Note 2025** structured product in the quarter. Structured products are contracts with investment banks that pay specific returns when triggered by certain scenarios. This one pays us a quarterly coupon amounting to 5.1% each year, as well as a return based on the 'dispersion', or volatility of a basket of stocks relative to the volatility of the S&P 500 stock market index. By volatility, we mean that the prices of underlying stocks within the index move up and down more than the price of the index itself. This structured product will repay our capital and then some if the difference in volatility between the basket and the index widens between when we bought it and the October 2025 maturity. If the volatility difference decreases over the period, we will lose money.

We also added to our **Put Options** on the US stock market in November and December as the S&P 500 ripped higher. These work like portfolio insurance in that you pay a premium up front and receive protection if markets drop. They become cheaper to buy when volatility is low and more expensive when it's high. The reason for this is that if volatility is high – if prices are yo-yoing all over the place – there's more chance that the option will be used, so it's more attractive. However, volatility isn't stagnant, so it's often best to buy insurance when the sun is shining, which is why we added to our put option exposure – stock market volatility fell significantly over the quarter.

We used stock market weakness in the first half of the quarter to add to some of our stocks that we felt had been unfairly punished for short-term dynamics. These included medical technology businesses **Dexcom**, **Abbott Laboratories**, **Smith & Nephew** and **Edwards Lifesciences**, which were hit hard by [new weight loss drugs](#), and household names **Coca-Cola** and **McDonald's**.

We sold iron ore, aluminium and copper miner **Rio Tinto**. The company often trades as a China proxy and more broadly as a barometer of the global economy because demand for its materials tends to rise and fall with global booms and busts.

SPOTLIGHT

In this quarter, the spotlight is on our **Accenture** and **Microsoft** holdings.



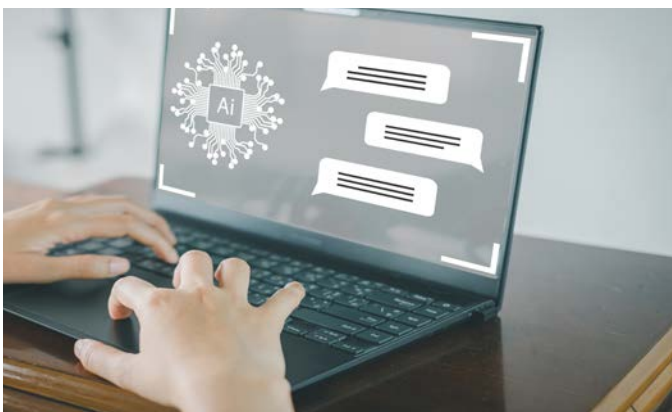
Accenture

- A global professional services firm specialising in consulting and outsourcing – across 40 industries and 120 countries
- The world is changing quickly, and large organisations are under threat in the new world – they have the ability to support these organisations in adapting to this new world, not only with ideas, but with end-to-end delivery
- Many businesses are still early in their digital transformation and Accenture has significant expertise in supporting their clients through this process – this need for digital transformation plays to their strengths
- The focus on areas such as cloud, big data, artificial intelligence, and cyber security mean they are at the forefront of how businesses need to evolve to deal with these new threats and opportunities
- Accenture are a key player in consulting with firms about how they may implement Artificial Intelligence into their businesses – in December 2023 they announced a partnership with Google Cloud to launch a Generative AI Centre of Excellence designed to help companies make the best use of this new technology

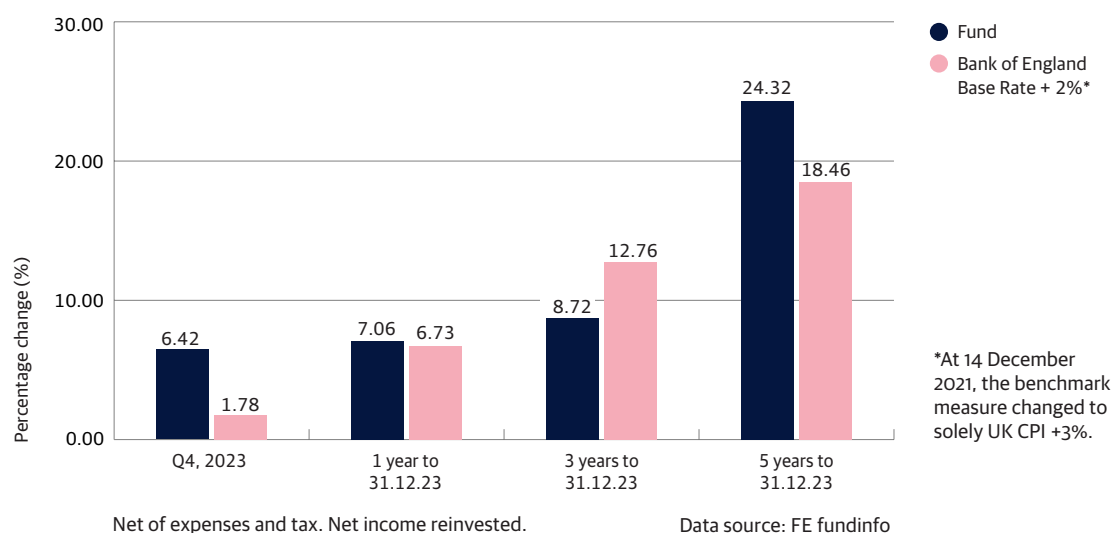


Microsoft

- The well-known global computing giant that revolutionised personal and business computing packages with software like Windows and Office
- Over the years Microsoft has pivoted into new areas of growth, such as cloud computing with its Azure business, and analytics and data for business with Dynamics
- Microsoft also has a strong foothold in the ever-growing video game market with its Xbox console and newer game subscription services that allows users to consume video games like they are now used to consuming their favourite TV shows and movies
- With hybrid working and digital dependency the new normal, Microsoft is incredibly well placed with Azure providing the necessary cloud capacity businesses require, and Microsoft Office, Dynamics, and Teams, providing the all-important complete and connected IT infrastructure for businesses to effectively operate effectively
- Artificial Intelligence has been an area of focus for Microsoft and through strategic investments in OpenAI (the creator of ChatGPT) and developing the AI-powered "Co-pilot" for use within their Microsoft 365 enterprise software (including Outlook), their Edge browser, and Bing search engine, they are focused on retaining a leading position in where the technology industry is going in the coming years



FUND PERFORMANCE



Discrete annual performance					
Year to:	End Dec 2019	End Dec 2020	End Dec 2021	End Dec 2022	End Dec 2023
Fund	+9.42%	+4.51%	+6.74%	-4.86%	+7.06%
Bank of England Base Rate + 2%	+2.76%	+2.23%	+2.11%	+3.47%	+6.73%

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
Shopify	+36.84	+0.20	Rentokil	-27.11	-0.17
American Tower	+27.87	+0.13	Thames Water 4.625% 19/05/2026	-18.24	-0.07
Assa Abloy	+26.95	+0.14	Aptiv	-12.87	-0.06
Decom	+26.94	+0.17	iShares S&P 500 Energy ETF	-11.28	-0.07
US Bancorp	+26.79	+0.13	SIG Combibloc	-11.06	-0.04

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

Government bond yields fell materially over the fourth quarter of the year, with falls accelerating in December after US Federal Reserve Chair Jay Powell told a press conference that monetary policy should be looser next year. Lower bond yields, which are driven by higher bond prices, gave our portfolio a substantial boost. Over the past year or so we had built up our holdings of government bonds and increased the length of time till they mature, which makes their values more sensitive to movements in interest rate expectations. We believe that these bonds are still attractive, with the US 10-year government bond especially offering an appealing return after accounting for inflation. Government bonds should also provide portfolio protection if an economic downturn arises.

FUND PERFORMANCE (continued)

The sharp fall in bond yields helped stock markets as well because profits expected far into the future have a greater value when interest rates are lower. The biggest gains came from growthier stocks like e-commerce platform **Shopify** and more traditionally rate-sensitive stocks like telecommunication infrastructure company **American Tower**. The change in mood music also helped start a rally in US beauty retailer **Ulta Beauty**, which we own. Ulta went on to beat its quarterly earnings estimate and signal an improvement in its outlook for the coming year. Other meaningful contributions came from cosmetics producer **Estée Lauder**, DIY chain **Home Depot**, and fast-food giant **McDonald's**.

Our significant position in medical technology stocks held us back in the third quarter because of concerns that next-generation weight loss drugs, such as Ozempic, would badly damage many healthcare businesses. We used that share price weakness to add to our holdings and this was rewarded by a large reversal in November and December. As an example, one of our key holdings in this space, diabetes monitoring company **Dexcom**, rose from around \$75 a share at the height of the pain in mid-October to end the year around \$125.

The key detractor from our quarterly performance was UK-listed pest control business **Rentokil Initial**, whose share price fell sharply after management cut forecasts for American sales growth and profitability. Tougher conditions have hurt demand in the US, which now accounts for around half of Rentokil's sales after it bought US firm Terminix in 2021. We believe there hasn't been a material change to the long-term investment case for Rentokil, so we used the share price weakness to add.

ASSET ALLOCATION RANGES

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

ASSET ALLOCATION CHANGE AND STRATEGY

There were no significant changes over the quarter.

Asset allocation split	30.09.23	31.12.23	% Change		12 month change	
Liquid assets	36.19%	36.68%	0.49%	▲	-3.32%	▼
Equity-type risk	46.03%	46.78%	0.75%	▲	0.82%	▲
Diversifiers	17.78%	16.54%	-1.24%	▼	2.50%	▲
	100.00%	100.00%				
Asset class split	30.09.23	31.12.23	% Change		12 month change	
Equities	33.32%	34.53%	1.21%	▲	1.42%	▲
Index-linked bonds	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Conventional government bonds	24.91%	26.23%	1.32%	▲	0.85%	▲
Corporate bonds	18.48%	16.02%	-2.46%	▼	-2.01%	▼
Emerging market debt	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Private equity	0.51%	0.54%	0.03%	▲	0.10%	▲
Alternative investment strategies	12.71%	11.43%	-1.28%	▼	2.21%	▲
Infrastructure	0.19%	0.52%	0.33%	▲	0.52%	▲
Property	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Commodities	5.07%	5.11%	0.04%	▲	0.28%	▲
Cash	4.81%	5.62%	0.81%	▲	-3.37%	▼
	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

The markets for bonds and locking in future interest rates imply that it's probable that the Fed will cut interest rates as soon as the first quarter. While anything is possible, we think it would require serious economic disintegration for the Fed to cut rates within the next four months or so. With current growth so high, that would be a breath-taking slump in economic activity. Instead, it seems more likely that the Fed will hold fast for a while yet. On a human level, we think central bankers' professional reputations and legacies are more at risk if they cut rates too early and let inflation flare up again. If they keep rates high and cause a minor recession, well, that's just the cost of prudent leadership...

Of course, that's not what the rest of the market hears when Fed voting members get to talking. We will have to wait and see. One of the main disconnects we see as 2024 kicks off is that many investors expect rates to follow a downward path that implies sharp economic deceleration, while simultaneously expecting chunky double-digit profit growth for companies that's rare in times of slowing (or falling) GDP.

To avoid being too badly burned by any disappointments, we've been trimming stocks whose valuations appear to have got a bit topky and using that cash to add to stocks and other assets that have fallen from favour. We don't want to sell these businesses completely – lots of people want to buy them for a reason! – because over five years or more, we think they have the opportunity to grow well and become more valuable. Yet we try to minimise the short-term downdraughts that happen.



If there are any of the commentaries you require further clarification on, then please contact your adviser or Rathbones at the contact details below.

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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