Rathbone Income Fund

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"Advertising is based on one thing: happiness. And do you know what happiness is? Happiness is the smell of a new car. It's freedom from fear. It's a billboard on the side of a road that screams with reassurance that whatever you're doing is OK. You are OK."

Don Draper, Mad Men, Series 1, Episode 1

We all have some attachments to branded goods, whether we want to admit it or not. Brands identify the detergent we purchase to wash our clothes, the razors we use to shave (although having a beard is also a personal branding statement), the mobile device with which we interact with the world, or the craftiness of the beer that we sip. Some individuals are brands – Trump, BoJo, Beyoncé, Beckham – figuratively and in some cases literally. Achieve consumer resonance and you have share-price rocket fuel.

Brands with Purpose

Unilever is one of our core positions. As well as being a successful investment, it also presents a fascinating business case study with an enthralling history. William Lever famously envisioned Port Sunlight, the model village in the Wirral that he built for his workers at the end of the 19th century, houses, schools, hospitals and all. It is this heritage that is invoked passionately by current CEO Alan Jope as he promotes the "Brand with a Purpose" strategy, a plan that circles neatly back to the very origins of the business.

In 1996, Irishman Niall FitzGerald became CEO and chairman of Unilever, and launched his "Path to Growth" programme, designed to focus resources on to 400 "power brands" from a hefty stable of 1,200. While radical at the time, it did not go far enough, and the City, ultimately, was unimpressed. When Mr FitzGerald retired in 2004, branded goods businesses were not afforded the lustre nor the valuation that is granted these days. However, 15 years later, the company has slimmed itself down still further, and the current narrative emphasises 28 "sustainable living brands", brands with purpose, brands that resonate with the consumer, that talk the talk and walk the walk. And on this journey, the shares have re-rated.

It is clear why Unilever wants to over-index on a limited number of key products: current boss Mr Jope contends that "brands with purpose" grow twice as fast as others. They are relevant, they resonate with consumers and generate internet chatter, and he contends they inspire loyalty. Furthermore, to belong in Unilever's stable they must not just stand for something purposeful, they must "do". For example, Dove soap "says" that it is "shattering beauty stereotypes", and backs it up through active campaigns including Project #ShowUs, an endeavour to change the way media and advertising represents women. Now, we may look at this with a cynical, questioning eye, but it is a real part of Unilever's strategy, and so has profound implications on its capital allocation.

The "brands with purpose" initiative throws up some important challenges. Beyond the ethical and environmental imperatives, the financial arguments are established upon certain key premises that deserve examination.

It's a question of loyalty

What, why and how we consume has evolved. True, many people will continue to buy the same things that they always have, and not every brand is going to resonate the same way with every consumer. Arguments regarding price and value still stand, and the likes of Aldi and Lidl have forged outstanding businesses through little emphasis on branding other than their own, personified by a laser focus on customer value.

However, younger generations want to celebrate uniqueness, and above all else, authenticity. In this context the role of brand becomes much more nuanced. Managers of brands, chief executives of sometimes huge global leviathans, must recognize that brand loyalty may be fleeting, delicate and fickle. Strategy-supporting concepts like "brands with purpose" must navigate the very treacherous waters between relevance and authenticity on the one hand, and shallow contrivance on the other. It takes but a cursory google search to see how easy it is for Unilever, Heineken and Pepsi, to name but a few, to make errors of judgement relating to product and purpose.

Return on investment still matters. In the end, listed businesses have a contract with shareholders to maximise returns, and for many this dominates any other more noble aims. However, Unilever contends that brands with purpose generate greater returns, that this is fundamental to its narrative, above and beyond the more qualitative, softer arguments. But will the company elect to jettison profitable brands if they fail to tick the purpose box? Or do they contrive a purpose in order to retain the profits? Will profit maximisation ever be a comfortable bedfellow with the aspirations of a younger generation? And if not, do businesses take the gamble to switch stakeholder base? Is the younger generation going to be the profit pool that they hope and expect? How far along are we with the discussion around supply chains and circular economies? There is real progress to be made in areas such as carbon reduction, more efficient water usage, and removal of plastic from the system, and it is obvious that these are areas where companies can strive to become more efficient, thereby boosting the all-important financial returns.

At this stage in markets, are the ad agencies better value?

Industry fortunes wax and wane. If Unilever has enjoyed a decade-long trek to the sunlit uplands of investor approval, **WPP**'s share price decline has been meaningful, if not precipitous. Many are the reasons for this fall from grace, but the shares now languish at a multi-year low rating versus the FTSE All-Share. A company clearly undergoing profound change, does WPP represent a better or worse investment opportunity than the shiny perfection that is Unilever?

Brands are the issue for WPP. The brand value of its previous CEO, Martin Sorrell, has been tarnished; the brand equity of the WPP name itself is also less clear. Management are asking the question, what does WPP mean to its customers? The business is a collection of many enterprises and the key for the new CEO is to bring these together once more in a spirit of collaboration. Each brand means something in its own right, but they also need to amount to something bigger collectively. And they need to do so quickly, as the environment they operate in is getting increasingly competitive.

In the media world, old can mean stale and staid.

WPP describes itself as "a creative transformation company", building "better futures for our people, clients and communities." It professes a core competence of "giving brands purpose". For every Dove looking to remind the consumer of its goodness, there is a media company crafting the story to sell it.

But putting cynicism aside, this is a serious business. The messaging around a product these days is paramount. Emma Thompson flies to a climate change conference and she is lambasted for the carbon impact she is inflicting on the planet. Sixteen-year-old Swedish activist Greta Thunberg is now sailing across the Atlantic from Plymouth to New York on a zero-carbon yacht with no toilet, privacy, or change of clothes. This is an astonishing course of action totally aligned with her unique message. For most of us, during the normal course of life, the only way to cross thousands of miles of ocean in a practical fashion is by plane at a cost to the planet of 1 tonne of carbon dioxide. These episodes reveal that it is not just the message, but the method of telling that is important.

This letter is not the format or platform to argue to sell one share to buy another, but we do want to tack back to our regular discussion around price and value. WPP is a company in recovery, and its shares reflect the tarnished nature of its story. Yet, WPP may benefit from the very changes in consumer trends that are empowering the global brand giants. Unilever is competing with Procter & Gamble, with Reckitt Benckiser, with L'Oreal and Estée Lauder, in the same way that WPP is competing with Omnicom, Publicis, and Accenture. All of these companies are evolving with the modern world, as reflected in the prices being paid for their shares.

It is interesting that Unilever shares drifted on the day of its results, fine as they were. We really like the business, but we have trimmed our holding.

WPP's results were poor, but not as poor as forecast. The shares look cheap and the shares went up on the day. We have no idea if there will be a meaningful rotation into value any time soon, but there are clearly some interesting moves in the playbook.

Recent trading: We have sold our remaining shares in **AstraZeneca**. The company has continued to move higher on a raft of good news, but we think this is priced in. We have also sold small holdings in **Novartis** and **Euromoney**. We have added to our **Lloyds Banking Group** on pure valuation grounds, and have created a new position in WPP.

Companies seen this month: Unilever, DMGT, Greene King, Berkeley Group, Carnival, and MicroFocus International.

Carl Stick
Fund Manager

Alan Dobbie
Fund Manager

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Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000
Fax 020 7399 0057

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