Rathbone Unit Trust Management
Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone UK Opportunities Fund

Update, April 2019

For the fourth month in a row, UK markets rose, bringing the FTSE All-Share Index up 12.4% so far in 2019. Markets were buoyed by investors feeling more confident that a hard Brexit wouldn't occur.

Mid-caps and AIM stocks gained the most, beating large-caps. The two best-preforming sectors were two of your fund's largest exposures: financials and industrials. The ascendancy of these sectors indicate a return to a more risk-on environment. This dynamic, plus really solid numbers from our holdings, helped your fund outperform during the month, rising 6.8% versus our IA All Companies sector peers' 4.5% average. Year to date, the fund is now up 15.2% versus 14.0% for our peers.

Our top contributor in April was core holding **GB Group**, which reported great numbers. Not only showing was revenue growth ahead of expectations, but margins also surprised on the upside, impressive for a company making so many investments. Recent acquisitions, which we helped to fund, are also performing very well. GB is a highly rated stock with strong fundamentals and quality management delivering earnings upgrades – just the sort of attributes we look for in core holdings. But, in a hot sector with few alternatives, we need to keep a close eye on risk/reward, so we have pruned the holding in line with our maximum holding size of 3% in AIM-listed stocks.

'Buy, improve, sell' specialist **Melrose** continued to rally during the month. It was driven by an upbeat investor event where management outlined the scale of operational improvement Melrose can achieve from its latest deal, GKN. Crucially for investors nervous about the outlook for global growth, Melrose doesn't require a better economy to deliver these targets and instead laid out a confident path, picking some very low-hanging fruit on the way.

Two of our large-cap holdings provided the bulk of the negatives this month. One-stop shop distribution business **Bunzl** delivers everything your office, shop or school might need to operate (aside from food), priding itself on its ability to deliver on time and in full. Loo roll and paper straws are certainly not economically sensitive, but high wage inflation in the US is offsetting some of the benefits of Bunzl's slow and steady growth. This business sits in our defensive growth bucket. As such, we value the company more for its stable model and impressive track record, but do wish to see some improvement in organic growth to boost margins.

The **Micro Focus** share price, too, had a choppy month, although this was expected. Shareholders received a large special dividend (from the sale of the SUSE software subsidiary – a relatively fast-growing business sold for a good price). This was the catalyst we (and clearly many others) had been waiting for, and now see Micro Focus as a fairly valued company whose legacy software assets are in structural decline. We have sold our position.

We have spent much time this month discussing whether UK markets can start to move beyond Brexit before a deal is reached, or whether investors are simply stupefied by the whole process. Either way, we see that our indices are becoming less sensitive to currency moves while valuations, particularly versus the US, remain attractive. Our cash position is coming down as we begin to see opportunities opening up

Alexandra Jackson, CFA
Fund Manager

This is a financial promotion relating to a particular fund. 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 may go down as well as up and you may not get back your original investment.

Source performance data, Financial Express, bid to bid, net income re-invested.

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