Rathbone Unit Trust Management
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Rathbones
Look forward

Rathbone UK Opportunities Fund

Update, July 2019

It was a tough month for your fund as odds of a no-deal Brexit increased with Boris Johnson installed – for now – as Prime Minister.

Global markets try to price the odds of Brexit using currency markets, so sterling weakened markedly. On one hand this is good for the profits of our fund's overseas champions, but on the other hand it negatively impacts the outlook for more domestic-facing companies. At our most recent review, we estimated that less than 44% of revenues in your fund come from the UK. That is higher than for the FTSE 100, but lower than for the FTSE 250.

We aren't trying to take a view on sterling or the outcome of current political wranglings. Instead, we're continuing to look for the 50 most rewarding growth companies in the UK. Over the long term we know this will produce solid returns for the fund; in the shorter term we are aware of fraying nerves in UK, and global, markets. Because of this, expect to see us buying more defensive positions – higher-quality, better-capitalised companies with more predictable earnings streams and control over their own destiny. Accounting quality is a real focus for our analysis. Through painful experience we know this is where the torpedoes come from.

Your fund fell 0.3% this month while our peers in the IA All Companies sector made 1.7%. Large, foreign-earning companies, where – as you would imagine – your fund is very underweight, outperformed smaller, domestically focused names. We had strong returns from **accesso Technology**, the rather beleaguered queuing and ticketing software business, that has put itself up for sale as a result of poor share price performance. We have always had faith in this company's software: helping to shorten queues so theme parks, zoos, ski resorts and the like will benefit from customers spending more time (and money) elsewhere. But accesso would likely benefit from time and investment to become the company we had hoped for; more often these days this is better done away from the glare of the London listed market.

More strong returns came from large positions **GB Group** and **UNITE**, the latter after announcing a super deal to buy a similar portfolio of student housing from a competitor. This gives UNITE more scale over which to spread its costs. We met management in July to discuss the merits of the deal. The company also detailed what universities and UNITE can do to address the mental health challenges faced by those in the universities' care – this includes student counsellors, training and a hotline. This is a big part of the value proposition of living in a UNITE room during your time at university, and so helps to preserve rental growth as well as helping to address a complex issue for our young people.

As noted, your fund's lack of exposure to mature, large, overseas earners was a drag this month. Additionally our domestic positions were under some pressure, but we think our exposures are correct. For example, experiences that can't be 'Amazoned,' essentials, innovative telecoms. We don't own any banks or volume housebuilders, rail, water or utilities companies.

We have sold our position in compliance software business **Ideagen**, where valuation reached what we believe could be close to a peak. We like the theme of software helping businesses to meet increasing regulatory requirements, so watch this space.

With August often providing excessive volatility because trading orders slacken off while investors take a break, we think we will get the chance to pick up some more of our favourite holdings and start some new ones where we have been waiting for the right entry point.

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, mid to mid, net income re-invested.

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