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Rathbones
Look forward

Rathbone UK Opportunities Fund

Update, March 2019

For the third consecutive month, UK equities rose, leaving the FTSE All-Share up 9.4% in the first quarter of 2019. That's its best quarter in six years. Mid-caps led the rally in January and February as the risk of a 'no deal' Brexit diminished. Investors were coaxed back into medium-sized UK domestic businesses. After their rally, leadership shifted in March, with large-caps outperforming. The FTSE 250 actually fell over the month – and for the first time in a good while not just because of weak sterling. The UK results season was more positive than some had feared, although companies on the whole were hesitant to provide more bullish outlooks for the rest of 2019. This means expectations for the year look pretty low and so hopefully a good set-up, particularly if a reduction in Brexit uncertainty releases some pent-up activity in the second half. Intriguingly, it seems global investors may have finally stopped reducing their allocations to UK stocks, with UK fund flows flat for the first time in a long time.

Your fund rose 1.7% during the month versus 1.9% for the IA UK All Companies peer group. Over the quarter, we delivered 7.9% compared with our peers' 9.0% gain. As we highlighted in our January note, we took a final 0.9% write-down on Patisserie Holdings, which held back performance.

It was technology, mining and consumer goods names that provided the upside in Q1, with telecoms the only detractors. So, unsurprisingly for your fund, two of our top-three contributors were software names, **AVEVA** and **Micro Focus,** which both posted strong numbers. Engineering design software business AVEVA is benefiting from its combination with Schneider software, finding new customers and offering them more products. Micro Focus's numbers were better than feared and investors are enjoying the prospect of a large return of capital later in April.

Negatives came from ticketing and queuing software provider **accesso Technologies**, which announced more investment would be needed to ensure its technology is suitable for a broad range of customers. Over the long term we (and trade players) see a great deal of value in accesso's unique set of products. Low-cost gym provider **Gym Group** suffered from worries about price cuts, which were duly alleviated in March and the stock has since rallied. We see no sign of the trend towards health and wellness abating.

One standout name in March was video game developer **Team17**, which issued very strong maiden numbers and rose 18%. We like Team17's ability to develop successful niche games, such as Overcooked, The Escapists, the soon-to-be-released Hell Let Loose (and of course old favourite Worms), while spending less than £1m on each one. Led by gaming savant Debbie Bestwick who retains a large stake in the company, Team17 has a portfolio of over 100 titles meaning it isn't dependent on one or two blockbusters like many peers. This is a unique, UK-way to get exposure to the huge global video gaming market.

Back to more mundane matters, increasingly, a 'no-deal' Brexit looks unlikely, something which undoubtedly helped sterling be the best-performing major currency in Q1. This is a positive outcome for the economy and UK stock markets, but for markets to move substantially higher we may need real clarification rather than an endless series of temporary arrangements and delays.

We have been selectively adding to our favoured domestic names; those exposed to small-ish ticket purchases that feel within reach of UK consumers who are currently 'enjoying' higher wage growth than inflation. We have also continued to reduce exposure to global cyclicals, particularly those who tend to be vulnerable to mishaps.

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Fund Manager

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