Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone UK Opportunities Fund

Quarterly update June 2020

In June, our fund unsurprisingly gave back some of its recent outperformance. Large-cap cyclical companies finally broke ahead as economic data bounced off horrible lows. Banks and commodity companies were to the fore, an area where your fund has no exposure. FTSE mid-caps and AIM stocks couldn't keep up as the spectre of Brexit reappeared. Over the month, the fund fell 0.8% versus our large-cap-heavy benchmark, the FTSE All-Share Index's 1.5% rise.

While our lack of cyclical and value-type exposure hurt our performance during June, our investment style of high-quality, cash-backed growth has driven longer-term outperformance and been particularly beneficial so far this year. Since the desperate days of March, our fund has bounced back harder and stronger than our benchmark, and as a result is now down 13.6% year to date, while the FTSE All-Share remains off 17.5%. Particularly notable is that the mid-cap FTSE 250 (where we invest most of the fund) has this year actually fared worse than the large-cap FTSE 100, likely as a result of Brexit fears and perceived higher risk for domestically focused UK businesses.

The AIM index has been the standout UK performer year to date, down just 7.4% due to a few of its larger stocks powering ahead. Luckily we own a few of them.

Ceres Power was once again our top performer this month; it takes the podium position for the first half too. Investors have noticed that hydrogen is quickly becoming the go-to renewable energy source, and Ceres is well positioned to benefit from this due to its licensing model. It has developed a scalable fuel cell for use in buses, boilers and datacentres, and is partnered with leaders in these fields, such as engines giant Weichai, datacentre leader Bosch, and energy and semiconductor conglomerate Doosan. Our other industrial positions had a good month too, benefiting from a rerating of cyclical companies across the market.

Our AIM-listed video gaming stocks have been very profitable so far this year, with **Team17** and **Keywords Studios** the second and third biggest contributors to our performance. You couldn't design an environment more conducive to video gaming than lockdown. Conversely, it was our lockdown losers like gyms, travel and aerospace supply companies which have struggled the most this year. Not owning any banks, commodities, airlines, cruise names or luxury goods – and having limited retail exposure – has been a positive, and by the same token not owning large-cap healthcare and staples names was a headwind.

Back to June, reassuring and resilient numbers from self-storage company **Safestore** propelled its shares higher. Other real estate names, such as **SEGRO** and **UNITE**, performed well too, with both raising money to fund future growth.

After stellar rallies, a couple of our holdings retreated a little. Scientific research supplier **Abcam** is quite a volatile stock for its sector, exacerbated by the very high rating investors place on its unique market (assay kits, reagents and antibodies used in drug discovery and testing). Digital transformation software business **Kainos** has been busy helping the government with COVID-19-related technology, such as the online sicknote procedure.

We made few changes to our portfolio this month. We have been gently trimming a few large positions where valuations look full in order to maintain some firepower for further attractive equity raises and new positions. We have built a holding in British mixer brand **Fever-Tree**. We have long admired the business model, yet valuation and expectations had become disjointed. Now that the company is getting better traction in the US after a price cut, we had the confidence that expectations were better placed. While bars and restaurants have been closed, Fever-Tree has done a super job of driving customers into supermarkets, doubling its US volumes over the month to mid-May.

The first half of 2020 has been a rollercoaster so far, for the stock market as well as for our personal and professional lives. There are elements of the new order that we would like to maintain, such as flexible working, less travel and a slower pace. But plenty we hope we never have to go through again. Government and central bank action is crucial to ensure this recession doesn't turn into a crisis. Brexit is an unwelcome distraction, but the tea leaves look more positive for a stop gap deal by year end. This should support sterling, which is looking extremely undervalued, as well as investor perceptions of the UK.

The UK market has been ignored by global investors for many moons now. British companies have lagged the recovery seen in other markets and sterling has ebbed. We believe too much gloom has been factored in. There are challenges ahead, especially given the finalisation of Brexit, yet we shouldn't forget just how much skill, expertise and acumen abounds here. There's a reason why UK universities and pharmaceutical businesses are in the forefront of finding cures and vaccines for COVID-19. The UK boasts an extremely skilled workforce, with strong educational infrastructure and a gold standard rule of law. We believe that's something that you can invest in.

Alexandra Jackson
Fund Manager

***We aim to deliver a greater total return than the FTSE All-Share Index, after fees, over any five-year period. Total return means the return we receive from the value of our investments increasing (capital growth) plus the income we receive from our investments (dividend payments). We use the FTSE All-Share Index as a target for our fund's return because we want to offer you a better return than the UK stock market. We also compare our fund against the IA UK All Companies sector to give you an indication of how we perform against other funds in our peer group. Apart from investing exclusively in the UK, the funds in this sector aren't always similar to ours.**

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