

Rathbone UK Opportunities Fund

Monthly update July 2020

July was a very good period for your fund, as sterling strengthened and results season offered some standout performances.

This bucked the trend of the overall UK market, however, which struggled to make headway because of its heavy bias towards currently unfashionable 'value' and 'cyclical' businesses, such as banks, retailers and energy producers. The fortunes of these sorts of companies are most materially tied to the economic outlook, so it's unsurprisingly that they are having a tough time right now. When growth is scarce, we prefer to buy growth. This preference has helped our fund outperform its benchmark year to date.

Large caps took the brunt of the fall last month; to our minds, investors have started to rethink the resilience of the dividend-paying, old-economy members of the FTSE 100, given rapid changes in consumer and business behaviour and the economic climate. And, in our view, valuations were supportive of looking further down the market cap scale. This is a multi-cap fund, but our favoured hunting ground has long been in mid and small-caps and the upper reaches of AIM. This is where we are finding quirky, new-economy, resilient and scalable growth companies that are valued at large discounts to their global peers.

One such opportunity is **Kainos**, a FTSE 250 software business. If you have renewed your driving license online, or downloaded a COVID-19 sicknote for work, you will have used Kainos software. It is doing a lot of work for the government's digitisation programme too, and they have an excellent track record of making it work. Kainos also helps companies install, configure and test Workday, the \$40-billion market-cap US-listed HR software. Kainos's outstanding results sent its share price skyrocketing during the month.

Our remote communications play, **Gamma**, made good headway with further M&A in its nascent European markets. This was the next leg for Gamma, which offers its small to medium-sized customers help with Microsoft Teams as well as its own remote telephony systems.

Ceres Power, the hydrogen energy business we have mentioned several times in the past, was our biggest detractor as its share price slipped back from recent highs. Industrial turnaround specialist **Melrose** also had a poor month. Its results make grim reading for the short term, yet you have to expect that given the lockdown will have hit manufacturers particularly hard. We believe we are at the bottom of the industrial cycle right now, which compelled us to buy more of this quality operator. Even without a pickup in its end markets, Melrose knows how to improve its businesses and generate cash. We believe the share price has been buffeted by machines, not active investors with a sensible time horizon.

The UK's underperformance is now very marked indeed. We believe this has opened up an opportunity for long-term investors – particularly versus the US this market looks cheap. The disconnect between US and UK stocks has only been this large twice in the modern era. Both times, UK equities outperformed their global peers over the subsequent year.



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.**

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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