Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Global Sustainability Fund

Quarterly update September 2020

Your fund continued to benefit from its significant exposure to businesses that are adapting well to the current crisis and providing solutions at a time of uncertainty in global markets. We remain in close contact with all our holdings, ensuring we understand how market dynamics are changing and what management teams are doing to navigate through the rest of 2020 and beyond. We have also kept a close eye on the commitments that our companies are making to employees, supply chains and their wider communities. We only want to own franchises that can demonstrate they 'walk the walk' in terms of sustainability, and there is no better litmus test than in times of stress.

Several key trends have emerged from the crisis, which we believe will persist in the medium term. One of the most powerful is the increasing focus on green infrastructure. As governments around the world continue to announce significant fiscal stimulus, infrastructure spending remains a prominent feature. The recent European Union recovery plan is a likely catalyst, in our view, for an acceleration in renewable adoption and a greater focus on circular economy initiatives across Europe. A number of our holdings should benefit from this. Another powerful structural shift is in how we all work and consume. Companies are accelerating plans to digitise their operations and promote more flexible and remote working. In many industries this is still at an early stage. And, finally, the migration of consumers to ecommerce and cashless payments is quickening too. We believe these clear upward trajectories are here to stay.

During the quarter, we bought a position in **Adyen**, the Dutch payment processing company. Adyen works with its merchant customers to provide a better and more integrated payment infrastructure. As noted above, we believe that the shift to more digital payments and ecommerce will persist in the long run. Adyen allows companies to accept payments from multiple digital sources and works to do this at a lower cost. From a sustainability perspective, we believe the evolution of the payment ecosystem is important as it potentially allows for better financial inclusiveness.

	YTD	3 months	6 months	1 year	30 Sep 18-30 Sep 19	Since Launch (19 July 18)
Rathbone Global Sustainability Fund	18.7%	9.1%	32.4%	24.4%	6.6%	32.0%
IA Global Sector	5.2%	4.2%	24.3%	7.2%	6.0%	14.4%
FTSE World Index	3.8%	3.2%	23.8%	5.2%	7.9%	16.4%

These figures refer to past performance, which isn't a reliable indicator of future returns.

Source: FE Analytics; data to 30 September, I-class, mid price to mid price.

We also purchased **Eurofins Scientific**. Eurofins is one of the largest independent testing companies in Europe. Its management have a long-term focus in building the business, only entering markets where it's difficult or expensive for rivals to follow. The company has strong exposure to the consumer and healthcare sectors, and provides critical laboratory testing to help protect safety standards.

In the infrastructure space we bought **Alfen**, which designs and builds smart grid technology for Dutch businesses. The company is focused on providing next-generation battery storage technology for the electricity grid. Alfen also builds electric vehicle charging points and works closely with the Dutch government. These services, we believe, will be critical as power sources evolve toward a renewable future. Importantly, we believe that Alfen has a strong economic moat around its business, given the complex nature of its products. It's also expanding into other European countries, where demand for its services could be significant.

Another addition was German industrial business **Jungheinrich**. It provides technological solutions for warehouse operations. It's particularly strong in forklifts and light trucks, which Junheinrich has invested significantly in electrifying, using a proprietary lithium-ion solution that's in strong demand from its clients.

We increased our position in scientific, legal and technical journal publisher **RELX**. We believe the business remains extremely well positioned, especially in the scientific and legal space, so we took advantage of share price weakness to build our holding.

We sold our position in **Smurfit Kappa**, the Irish cardboard and packaging business. We only held Smurfit for a short time, yet we became increasingly concerned about the operational environment given the global impact of COVID-19. We continue to champion the business's strongly sustainable behaviour, and will monitor its operational outlook as the pandemic progresses.

We exited two financial businesses – **Close Brothers** and **Sampo**. All round the world central banks have renewed their commitment to sustained monetary easing, that is, pushing interest rates lower. This makes it difficult for retail and commercial banks. They are sensitive to interest rates in two ways: firstly, they are reliant on positive interest rates to attract deposits from punters which they can lend to others at a profit. Secondly, they make money from longer-term interest rates being higher than the rate for shorter periods because they tend to lend money for longer than they borrow it themselves. In effect, they make money on the spread. Central bank actions, especially quantitative easing, is squeezing that spread between long and short-term interest rates. Both Close Brothers and Sampo are well-run companies, but this challenging overall financial backdrop means we saw better opportunities elsewhere.

Another exit was **Norma**, a German manufacturer of hose couplings, clamps and other connectors for industrial machinery. Norma supplies emissions-saving products to the automotive and water sectors. It has a strong market share in each of these areas, yet we were concerned about the outlook for autos, given the economic climate, and the subsequent impact that could have on Norma's business. We believe there are other industrial plays in the world that remain more attractive.

Finally, we trimmed our holding in **Hannon Armstrong Sustainable Infrastructure**. We purchased Hannon in the second quarter and still believe that it's extremely well positioned to benefit from an increased focus on efficiency and renewables in the US market. However, the shares had performed extremely well, so we took the opportunity to reduce our position size.

Globally, the pandemic is lingering stubbornly. It is most of what we all talk about, if we see anyone to talk to at all! It is has having a massive economic and social impact as some businesses, activities and jobs are curtailed while others surge in demand. In fact, talking about the impact of the pandemic misses the point entirely. Rather, the pandemic has sparked a galaxy of impacts. It set off countless changes in behaviour that are bouncing around businesses and households and across oceans. These are complex and intertwined. They create feedback loops and sometimes drive changes in things that seem otherwise unrelated. You can see this in the companies we talked about earlier. You can't simply say some sectors are doing fantastic, while a couple of others are struggling. There are winners and losers everywhere, so you have to be on the ball if you want to spot how a market will pan out.

Looking back, 2020 could well be seen as the beginning of a pivotal moment of change. One of those periods of flux where many of those who invest wisely make their fortune, and those that call it wrong lose a lot. Whether it is or not, is for future historians to say, not us. But there is one pivotal change that we truly hope is coming: a step change in the take-up and development of sustainability.

It has been building for a while, yet COVID-19 seems to have accelerated it all. More of us seem to be focused on how companies are making their money, how they are treating people and how they leave the planet. More and more, companies are being held to account, by governments, by their customers, by their investors. We're trying to do our bit, by investing only with those businesses that we trust will make their money the right way, and by always encouraging them to do better. We do this because we truly believe this reduces the risks of our investments and that it helps us make better choices that make you wealthier without it costing the earth or coming at the detriment of your community.

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