**Rathbone Unit Trust Management**

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Rathbones
Look forward

# Rathbone UK Opportunities Fund

## Monthly update October 2020

In the run up to the US election and Boris Johnson's own Brexit deadline, your fund gained ground while our benchmark and our peers fell back. Sterling made headway as the noises coming from Brexit negotiators became increasingly positive. This is a nice tailwind for our fund as we own lots of domestic UK businesses.

Good stock-picking was the main driver of our October performance though. Our fuel cell play Ceres Power pushed ahead again, announcing new contracts. Undoubtedly Ceres finds itself in something of a sweet spot right now as China and Europe commit to pursuing greener growth. Investors around the world increasingly want to own renewable energy assets. We continued to trim our position into prodigious strength.

IT consultant **Kainos** issued some outstanding numbers, sending its share price popping. Never has it been so clear that governments and companies need to digitise – going to the post office to renew a driving licence just isn't good enough anymore. Not all government projects go well, yet Kainos has now written the software to help many ministries move online seamlessly.

Fraud prevention experts **GB Group** also had great numbers, easily beating expectations. We've owned GB for almost a decade now, first buying in at 40p (30 Oct 2020: £8.89). It has come back to shareholders for more funds many times since then, building an impressive track record of finding and integrating niche technologies to better their offer to customers.

Negatives came from some of our large caps selling off. New FTSE 100 entrant, software business **AVEVA**, unsurprisingly retraced a little ahead of a rights issue for its latest purchase, OSIsoft. That means it has asked existing shareholders to buy £2.84 billion of new shares at discount to raise the cash for the transaction. **Ocado** had a tough month too after a disgruntled also-ran filed a patent infringement lawsuit. More negative news flow around this is likely, and we worry it may deter customers from signing new deals, so we are holding fire on building this position for now.

GB and Kainos are good examples of high-quality, fast-growing businesses whose already strong fundamentals just got turbo charged by social distancing. Our job is to assess which trends are here to stay and which will disappear as fast as elbow bump greetings (we hope). Our belief is that now so many more people have tried online (be it banking, shopping, gaming), they are unlikely to revert en masse to an inferior proposition.

During the month we added to a couple of our COVID losers – **Greggs** (the baker) and Intermediate Capital Group (the alternative fund manager). While working at home has been, personally, very positive this year, it has hit sandwich shops hard. We don't believe the office is in any way dead though and expect to return in 2021. Greggs isn't reliant on this though – most of their stores aren't in city centres and cater to a different crowd that hasn't been dislocated to the same degree as commuting office workers. Greggs was unfairly lumped in with truly struggling sandwich shops, in our opinion, and has many avenues for growth, such as delivery and longer opening hours. The potentially swifter-than-expected reopening of economies following approval of a vaccine would be a bonus.

Post-month-end, the news of a Biden presidency and the Pfizer vaccine both served to compress the risk premium in the market – the extra return expected for taking the risk of owning shares. More certain outcomes help lower that extra return needed, and share prices rise as a result. This compression is most marked in 'value' companies, whose prospects during the pandemic were most uncertain, and therefore their share prices were most depressed. In the short term, our fund may underperform because of this. We are underweight the COVID-sensitive names and 'cyclical' businesses that will rally hardest on a brightening economic picture. Yet we are willing to forego this short-term sugar because we believe there are long-term trends that should pay off many times over for those companies we hold. Take the digitisation of the economy: this was happening before the pandemic, it accelerated with it and will stretch out far into the future. We want to own the businesses that contribute to that era-defining shift in commerce, not those that will have a couple of wonderful quarters and then will still find themselves outmoded. This is just one of the trends that we are trying to capture for you in the investments we make.

And then, of course, there's Brexit. Coming to an agreement with our largest trading partner should lead to a very positive setup for UK equities. It would complete the hat-trick of blowing away the uncertainty that has blighted 2020: tumultuous American trade policy, the pandemic and the question mark hanging over our future relationship with the EU.

Still, it won't be all plain sailing immediately, even if all these things come to pass. We think volatility and uncertainty will remain the watchwords for some time as the world tries to claw its way back from the sucker punch that is COVID-19. There has been a lot of strain on many households and businesses, even as others have found themselves in a more comfortable financial position. Governments have spent a huge amount of money and will one day soon start to plan a way to get back to black.

That's just another reason why we are focusing on quality growth companies. They tend to outperform when uncertainty is rife and GDP growth is scarce, because they tend to offer more-reliable — and growing — profits. We are happy to pay higher prices for that fundamental strength. It's only as the recovery takes hold that we will know how much damage has really been done, but it's going to be fragile and uneven. We are adding selectively to our bounce-back stocks, and to high-quality names trading right now on lower than normal multiples.

**Alexandra Jackson**
Fund Manager

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