

Rathbone Global Opportunities Fund

Quarterly update March 2022

In March, your fund returned 4.7% versus a 4.4% average for the IA Global sector. In the first quarter, your fund dropped 10.7% versus a 5% average decrease in the IA Global sector.

The dramatic rise in interest rates and the hideous Ukraine war have triggered the mother of all rotations out of long-duration 'growth' stocks into 'value', commodities and stagflation beneficiaries.

	3 months	6 months	1 year	3 years	5 years
Rathbone Global Opportunities Fund	-10.7%	-5.4%	8.7%	56.3%	99.1%
IA Global Sector	-5.0%	-0.5%	8.4%	43.2%	60.2%

	31 Mar 21- 31 Mar 22	31 Mar 20- 31 Mar 21	31 Mar 19- 31 Mar 20	31 Mar 18- 31 Mar 19	31 Mar 17- 31 Mar 18
Rathbone Global Opportunities Fund	8.7%	39.2%	3.3%	14.0%	11.7%
IA Global Sector	8.4%	40.6%	-6.0%	9.0%	2.7%

Source: FE Analytics; data to 31 March, I-class, mid price to mid price.

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

The value of investments and the income from them may go down as well as up and you may not get back what you originally invested.

A less binary world

I think the one-sided dominance of 'growth' strategies is starting to wane. Growth – those companies that increase sales much faster than wider economic expansion – has outperformed, almost without challenge, for the past 15 years. Many other parts of the market have been starved, so a period of catch-up has been likely for some time. I think this means we're getting back to an investing world that isn't so binary anymore. We started to see this shift last year. So, how do we tackle this? How do I ensure we're still investing in the right places? By making sure we've got balance.

We started making balancing moves a year ago by reducing our tech position from 29% down to 20% by selling our 'stay home' and 'work from home' stocks which did so well during the early days of the pandemic. We used the cash to purchase three banks – the first time in five years that we'd entered this market. We also bought pick and shovel 'old economy' industrial and machinery companies such as **Deere** that are helping the world boost agricultural production and manage higher levels of demand. Another addition was the **Chicago Mercantile Exchange** which benefits from the on-going electrification of trading and from rising interest rates through its interest rate derivatives business. It is also plugged into commodity markets, with a particularly strong hold on US oil and gas markets through its control of futures on WTI oil and the Henry Hub nexus in Louisiana, which is the export gateway for most American gas and the largest liquified natural gas terminal in the world.

Q1 2022 top contributors		Q1 2022 bottom contributors	
Deere	+21.8%	Intuit	-26.6%
Costco Wholesale	+2.4%	Shopify	-51.3%
Freshpet	+9.2%	Align Tech	-33.2%

Our weatherproof bucket of more defensive investments has been helpful. But it didn't provide as much protection as we would have liked over the quarter. That's because the main beneficiaries of this drawdown have been oil and gas and mining stocks – not your typical defensive sectors. We benefited modestly from our long-loved investment in **Costco Wholesale**, the discount warehouse membership club, as its competitive prices should drive more footfall and boost sales as inflation bites households and businesses. **Waste Connections**, our defensive grower in the US garbage collection business, proved its resilience in a less than glamorous, but essential, industry with pricing power (no one wants to hold onto their trash). **Freshpet**, the world's largest producer of fresh dog food, suffered a series of supply chain and inflationary disruptions last year. But the stock has bounced as the long-term attractions of its particular category starts to rebuild confidence.

Pure growth strategies thrive in a world where economic growth is hard to find. Twenty years ago almost half the S&P 500 Index were consistently growing revenues by more than 15% a year – value strategies outperformed for 66 years starting in 1940. More recently, only 70 companies out of 500 were reporting sales growth above 15%. That scarcity of growth drove the pivot to long-duration, resilient and high-quality growth investing strategies. But COVID-19 has changed the calculus, at least for a time. COVID relief spending and stimulus have been larger than the entire American budget (inflation adjusted) for the Second World War.

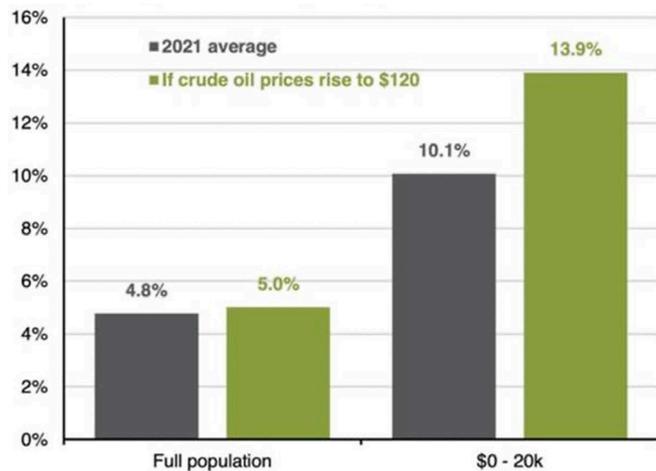
We're not in a world starved of growth anymore: we're in a world where there's too much demand chasing too few goods. The companies that are first in line to benefit from that shift are those experiencing an immediate earnings recovery or turnaround as a result. These companies are enjoying a period of supernormal profits after being long shunned by the market: oil, mining and rate-sensitive financials. The pendulum had swung too far toward growth strategies, in our view, and a period of catch-up is a humbling reality. Stocks such as **Intuit** (digital bookkeeping tools QuickBooks and TurboTax), **Align Technology** (Invisalign braces) and **Sartorius** (medical equipment for vaccine manufacture) were hit hard by a valuation compression despite little evidence of fundamental weakness. These have been star performers over the past few years, but the market is punishing historic winners whose potentially large profits far out in the future make their values more sensitive to changes in prevailing interest rates (otherwise known as 'long duration' assets). **Shopify** was vulnerable as a pandemic e-commerce winner, but it's now clear just how much investment it needs to catch up with **Amazon** and we've sold the holding. Finally, we suffered from an ill-timed investment last year in premium mixers brand **Fevertree Drinks**, which suffered from higher costs in its supply chain that reduced its profit margins. Hopefully, as its margin guidance is now rebased, it can drive even more impressive top-line growth in its nascent yet successful US rollout.

Our zero exposure to commodities and 'pure value' strategies has been the biggest headwind to performance this year, but we're not going to 'value wash' our fund to capture this limited time offer. Instead, we're using this dislocation as an opportunity to buy some stocks we'd long wanted to own but missed out on (usually due to our own mistakes). For example, we've bought **Apple** on the pullback in global stock markets. We admit it's hardly an under-the-radar growth stock, but our mandate also includes out-of-favour growth stocks. This is a company we have long admired but missed the chance to buy many years ago – despite seeing the management just 24 hours after the very first iPhone launch! Despite its mega-cap status, we still believe the growth and resilience of this business is underappreciated by the market, as is the size of the opportunity ahead as Apple enters new markets in coming years.

Squeezed but not broken

All this may not help quite enough in the short term. In a value-driven market looking for cyclical earnings recovery, where embedded trends like long tech and short energy have screeched into reverse, there will be a near-term headwind for global growth stocks. Stubbornly high inflation and rate rises without ceiling are amplifying the trend change. Yet we still believe that a recession can be avoided. Economic growth momentum, household savings, employment and companies' confidence in investing for the future all seem durable enough to keep us on the ride. There is \$3.9 trillion (£3trn) of savings in US bank accounts (\$2.9trn more than there was in 2019). Spending power is being aided by 4.3% year-on-year wage growth. Oil and gas prices may be soaring, but sadly it's only the lowest-earning people who are really hit hard by these price rises. Energy spending represents just 5% of total spending for the population overall, but the share is much higher for those earnings up to \$20,000 a year.

Household energy spending as a proportion of total spending



Source: Redburn Research

Supply chain pressures may be easing



Source: Evercore

FREIGHT RATES

GASOLINE FUTURES

Futures have declined almost -65 cents over the past month.

USED CAR PRICES

Realistically – and as much as I'd love for it to be otherwise – our performance won't bounce back in a smooth, linear or consistent way. In fact, I think the only way to outperform and drive long-term alpha is to be willing to withstand periods of inconsistent returns and short-term underperformance; something that I hope the long-term performance of our fund can demonstrate.



James Thomson
Lead Fund Manager



Sammy Dow
Fund Manager



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 and the income from them may go down as well as up and you may not get back what you originally invested.

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