Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Global Sustainability Fund

Quarterly update March 2021

The world has been a wild place over the past few months. For many moons now, so much has been in flux that it can be hard to track what's going on from one day to the next.

Economic data has been bouncing all over the place – mostly to exceptional highs – while the pandemic trundles on in the mixed mess we've come to expect. Vaccinations are rolling out rapidly in the Western world, allowing most developed countries to begin reopening. Yet infections are soaring in the emerging markets and more virulent mutations are discovered almost every week. Markets have been contorting themselves into different shapes almost daily trying to position themselves for this mixture of optimism, concern and change.

	3 months	6 months	1 year	31 Mar 19-31 Mar 20	Since launch (19 July 18)
Rathbone Global Sustainability Fund	-2.1%	9.0%	44.3%	2.2%	43.9%
IA Global Sector	3.2%	13.1%	40.6%	-6.0%	29.4%
FTSE World Index	4.1%	13.0%	39.9%	-6.0%	31.5%

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 returns.

A firm perspective

I've learnt many lessons throughout this weird year, but one of the most important has been perspective. When things get difficult or the cabin fever sets in, I force myself to remember all I have to be thankful for, to remember those who have been much less fortunate. This pursuit of perspective has been incredibly useful when investing as well. Take a breath, exhale, think. Headlines and narratives are always so adamant these days, so sure, and usually so inconsistent. Sometimes, when things go bananas, it's best to go for a walk. And sometimes it's best to buy the stock you liked just fine yesterday when it was 10% more expensive (or sell the stock whose valuation now makes no more sense regardless of how much you squint at it).

Our fund gave back a bit of performance during the first quarter, but that comes after an exceptional run for many of our stocks throughout 2020. A swift rise in government bond yields over the past six months has rippled through stock markets. As has greater excitement about the prospects for many more 'cyclical' businesses now that they can begin reopening. Many investors have been selling 'growth' companies, which are focused on more distant horizons, to scoop up these cyclical businesses in the hope of bagging shorter-term windfalls. We have also been adjusting our portfolio to increase our holdings of companies that should benefit from a resurgence in the global economy. We are being very careful not to delve into the bargain bin, however. The businesses we have bought are leaders in their fields with long-term growth drivers, not commoditised retailers or other lower-quality companies of that type.

Keeping faith

Even in the early days of the pandemic I was confident that we would be able to beat the virus. The story is complicated, the path convoluted, but important issues usually are. I thought betting against human ingenuity and tenacity was never going to be the right call. Given the technology we have today, mixed with the simple necessity of solving an urgent problem, I had faith. This has played out, so far at least. Businesses and households have adapted to the new environment and carried on living. A tremendous amount of government support and accommodation by central banks gave us the time we needed to create and roll out vaccines and adjust to a new reality. And another, post-pandemic reality will no doubt arrive in the coming years.

That's what we've been trying to focus on for your fund: what will the future look like and which businesses and technologies should help us get there. You may not see these changes trumpeted as much as they could be in the news and social media, but it's happening in the background. Renewable energy projects made up 80% of all new generation in 2020, a large jump from prior years. There's still a way to go – renewables account for less than 40% of worldwide power generation – yet the pace of change is accelerating. We are contributing to this necessary transition through our investments in Danish wind turbine manufacturers **Vestas Wind Systems** and Iberian renewable power company **EDP Renovaveis**.

Similarly, electric vehicles have come on in leaps and bounds. As have electric-assisted bikes and scooters. We have held **Aptiv**, an American vehicle electrification company, since launch. This business supplies all the sensors and power connection systems that automakers use to make cars smarter, safer and more efficient. During the quarter we added Japanese electric motors manufacturer **Nidec** to the portfolio. These motors are quite sophisticated and are used in all sorts of gadgets. From ultra-thin, shock-resistant cooling fans for computer hard-disk drives, to motors for wind turbines (helps bring them to a stop) and automobiles and electric bikes and scooters (helps them go). Nidec should benefit from several rising trends, including electric vehicles, renewable energy and cloud technology (its motors go into the servers). It would also get a boost from increased industrial production, warehouse activity and general economic growth because its motors go into forklifts, cars and other machines that companies and households tend to buy more of when things are going well. Especially if people take the opportunity to switch to cleaner-energy alternatives.

Chips on the menu

Another addition that ties into those themes of recovery, new-age cars and an increasingly digital environment is **Taiwan Semiconductor Manufacturing Company** (TSMC). Ever faster and smaller computer chips are central to the dizzying progress in digital technology. Essentially, everything has a chip in it these days. They allow you to set the home thermostat from your smartphone, they make your car smart enough to calibrate its engine on the fly, and they make the shared computing power of the cloud a reality. Because of the blistering pace of improvement, there are only a handful of suppliers for top-of-the-line computer chips. TSMC is one; it manufactures more than half of all third-party chips worldwide. Short-term, the industry can't print chips quick enough for the demand. Automakers have had to shut down production because of a late-pandemic shortage. We think this puts TSMC in a strong position both in the medium term and the longer term. This company has a very transparent supply chain as well, which is vital for our confidence in investing in this space.

To move into these companies, we trimmed some of the companies that had done very well during the pandemic and which we felt made sense to take profits on. These included ecommerce payment businesses **Adyen** and **PayPal**, and **GN Store Nord**, a Danish manufacturer of headphones, headsets and hearing aids.

We also sold UK consumer brands conglomerate **Unilever** completely. We felt more exciting opportunities could be found elsewhere. The company has spread itself across an extraordinary range of products and markets, which made us wonder whether it was approaching the limit of benefits that a large consumer brands business could garner from scale before it falls victim to simply unwieldy complexity and size. We also sold UK storage provider **Big Yellow**. We felt its valuation had become less compelling and we had other businesses that we thought were more exciting.

Another exit was German remote desktop software developer **TeamViewer**. We bought this company almost a year ago because we saw huge potential in its technology as a service for businesses – particularly those that require complicated systems on site. Allowing engineers, architects, surveyors and other skilled operatives to access software on site that would otherwise be back at the office seemed valuable to us. As did their plans to help manufacturers improve production line operations using augmented reality technology. However, in March TeamViewer announced a £235 million sponsorship deal with Manchester United. This seemed to be a diametric change of strategy aimed at mass market retail, and of limited value for acquiring business clients. It is also tremendously expensive: each of the five annual sponsorship bills is 12% of the company's total sales in 2020. We sold the stock immediately.

A helping hand

We will continue to invest for the future, trying to ride out short-term ructions in markets. With lots of changes still to come and a bunch of economic measures still to right themselves after a year of intense seesawing, these market wobbles will no doubt continue. For the rest of the year at least and probably well into next year as well.

Barring something completely leftfield, the developed world seems to be coming out the other side of the pandemic. Even Europe, after a botched initial vaccination programme, seems to have turned a corner recently. America has well and truly catapulted out of its lockdowns, with economic activity running extremely hot. The UK is outpacing expectations too, helped along by a deep embrace of ecommerce that has allowed people to spend and businesses to keep running safely. Company earnings have followed suit, with most businesses posting strong numbers in the first quarter. There's that human knack for adaptation again.

In the emerging world, however, it's a completely different story. And one that could read a lot worse before it gets better. One of the most affected nations is Brazil, where the virus has spread like wildfire. Brazil's tragedy is now a South American problem; microbes respect no national borders. Cases and hospitalisations in neighbouring Paraguay, Uruguay and Argentina have soared. Allowing such rapid transmission also increases the chances of more virulent strains of COVID-19 developing, which has duly happened. One new strain, traced to Brazil, could be as much as twice as infectious as the original virus. It has been spotted all round the world. Similarly, India is also in crisis. On one sad day in April, 349,691 new cases were announced there, more than a third of the world's daily total. At that rate, India will record the UK's 4.4 million total cases in a little over a dozen days. But it will be much faster than that, because the daily case numbers are increasing exponentially. And worst of all, these reported numbers are likely to be vastly underplaying the reality.

It really is true: we are all in this together. If one country runs a poor response, or lacks the resources to fight the pandemic, the virus multiplies and grows stronger. It will get out and spread around the world again. Putting that to one side, there are people living in these countries. They are suffering and dying and enduring gruelling economic hardship. This pandemic could wipe out decades of progress on global poverty and living standards. Western nations in a position to help must do so, so it is heartening to see the US offering to swiftly send healthcare workers and supplies to India.

Wider vaccination is crucial. Worldwide, administered vaccine doses have doubled in less than a month, and most poorer countries have now started to vaccinate. Yet it is those people in wealthy nations that are most likely to be inoculated. High-income countries, home to just shy of a fifth of the world's population, have administered roughly half of all vaccine doses. Low-income countries account for just 0.2% of jabs. They need our help to catch up.

David Harrison
Fund Manager

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