Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Greenbank Global Sustainability Fund

Quarterly update September 2021

The last quarter proved something of a roller-coaster ride. Stock markets posted decent gains, but there was a fair bit of angst and volatility along the way.

As ever, our key focus has been to keep on looking for the best possible companies that offer solutions to the pressing needs of tomorrow. Regardless of how GDP and inflation and interest rates play out over the coming years, efficient use of resources, more effective technologies and cleaner energy will be required.

	3 months	6 months	1 year	3 years
Rathbone Greenbank Global Sustainability Fund	4.0%	11.9%	22.0%	61.7%
IA Global sector	1.9%	8.9%	23.2%	40.0%
FTSE World Index	2.0%	9.7%	24.0%	40.9%

	30 Sep 20-30 Sep 21	30 Sep 19-30 Sep 20	30 Sep 18-30 Sep 19
Rathbone Greenbank Global Sustainability Fund	22.0%	24.4%	6.6%
IA Global sector	23.2%	7.2%	6.0%
FTSE World Index	24.0%	5.2%	7.9%

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

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

The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

Three key goals… three years of strong performance

When we launched our fund back in July 2018, we had three clear goals: invest in durable, quality businesses that were indisputably committed to sustainability; strive to improve those companies wherever possible; and be completely open and honest with you, our investors.

This focus has helped us perform well. Since the fund launched three years ago, we've beaten our two benchmarks, the IA Global sector of funds and the FTSE World Index in sterling.

Over the last quarter, investors continued to wrestle with the implications of post-pandemic reopening in terms of inflation, monetary policy and stock market leadership. Would GDP expansion continue to accelerate, benefiting the 'value' companies that have lagged significantly in recent years? Or would the initial reopening boom moderate, creating an environment where investors craved the reliability of 'growth' businesses?

These questions have driven a tug-of-war in equity markets for much of 2021. From week to week — and often day to day — markets have pitched and heaved between different sectors, based mostly on economic data and noises from central bankers. Growth rallying at value's expense, then vice versa.

Against this backdrop, the fund continued to deliver strong performance, bolstered by our supportive bias towards quality and growth (which was firmly in the ascendant during the period), as well as strong results from several of our portfolio holdings.

Benefiting from wide moats

Several of our companies benefited from the durable competitive advantages (or 'economic moats') that we regard so highly when picking investment opportunities. Notable outperformers included leading laboratory equipment business **Thermo Fisher Scientific**, whose equipment can be found in most commercial, government and academic laboratories. It continued to benefit from the structural tailwind provided by more laboratory testing in the wake of the pandemic. **Edwards LifeSciences** made significant gains after reporting stronger-than-expected Q2 results. This was driven mainly by the growth of its heart valves segment as important replacement surgeries started up again (at high levels).

Littelfuse, which makes high-quality fuses and sensors for electric vehicles (EV), reported significant sales and earnings growth. Littelfuse is a 'mission-critical' supplier to the fast-growing EV industry. We expect it to grow in line with the wider EV market and — crucially — to retain (and hopefully increase) its profit margins. **Halma**, which provides safety, environmental and medical technology to a range of industries and customers, reported better than expected profits on the back of strong revenues. Halma enjoys a strong market share in its niche segments, including water analysis and treatment, blood pressure diagnostics and fire and gas detection equipment. This helps its businesses charge high prices and achieve attractive returns on capital.

Adding new 'hidden gems'

When we started out, we were adamant that we wanted our fund to be as free to invest in as many exciting, responsible companies as possible. We wanted to be able to search across all developed markets and buy smaller companies — hidden gems — that others missed. Since launch, we've found quite a few smaller, lesser known businesses contributing to many different sustainability themes and they've been a powerful driver of our performance so far.

During the quarter, we added two such hidden gems, which each focus on doing a few things exceptionally well. **Ranpak Holdings** is the only pure-play paper packaging company in the US, supplying the industrial supply chain as well as ecommerce. Ranpak has an attractive 'razor/razorblade' model that should support the prices it can charge for paper packaging (its core consumable or 'razorblade') that it sells to customers who've bought its packaging dispensing units (its 'razors', on which it makes less profit). Paper currently accounts for less than 20% of the global packaging market, but enjoys strong sustainability advantages versus other materials, like plastics. This suggests Ranpak's business enjoys significant growth potential from here.

Power solution provider **Generac** has built up a strong brand for its renewable-based power generators. Increasingly unpredictable weather patterns and an aging US utility grid provide solid growth tailwinds for Generac and we think it will significantly grow its business from here.

We also added to global payment ecosystem **Paypal**. We continue to believe that it's in a commanding position to benefit from the rise in digital payments and consumers' increasing appetite for its digital wallet platform.

We funded our new purchases by trimming several holdings, including chemicals manufacturer **Clorox**, whose best-known product is its eponymous brand of bleach. Clorox reported very disappointing results. Demand for some of its hygiene products like wipes, has weakened, while its raw materials costs have risen. Management is addressing these challenges, but we have less conviction in the shares. We pared back **Edwards Lifesciences** and ecommerce payments platform **Ayden**. Both have enjoyed very strong runs so we opted to take profits on some of our shares. We continue to hold good positions in both Edwards and Ayden.

COP26 and beyond...

The COP26 climate change conference clearly marks a critical step in global efforts to tackle the crisis of climate change. Early indications suggest more concrete policy on methane reduction and a genuine move to limit long-term global warming to below two degrees. While this is a positive step, there is much more to do. The global finance industry will play a pivotal role in driving better future climate behaviour. The commitment to net zero from a group of asset managers whose combined assets under management total more than $130 trillion is a significant step forward. We're also seeing an acceleration in the adoption of science-based climate targets at many companies. This sets out a better framework to judge success and allows investors to engage with businesses to drive positive change.

As more capital flows into the broad sustainability space, we see a growing number of potential businesses to invest in. At the same time, we're acutely aware of the risks of 'greenwashing' – of companies pretending to be something they're not.

As the concept of sustainability has rocketed into the mainstream, we are increasingly seeing companies with poor principles and cultures trying to pass themselves off as well-intentioned. This is why our investment process and philosophy of owning quality businesses with a clear and demonstrable commitment to sustainability is more important. We want to invest on the evidence, not the bluster.

David Harrison
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 your original investment.

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