

Rathbone SICAV Income Fund

Update October 2019

Opposition and contradiction

Peter Rollins is a Northern Irish writer, philosopher and radical theologian. In a recent podcast he explained the tension he sees between “opposition and contradiction.” Mr Rollins’ concept of opposition is established upon our desire for answers, and the certainty and satisfaction that these answers give. We like truths that we can use as comforting shields against the massed uncertainties of real life.

However, these truths always disappoint. The early 20th century French psychoanalyst Jacques Lacan proffered the idea of the “*objet (petit) a*”, the object of desire that an individual is convinced will solve everything. If I can just have the latest iPhone, then I will be happy; if I can just get that next promotion, then all my problems will be solved. This is not to belittle the true needs and wants that anyone may have, but it is a recognition that you can place too much weight on the ability of individual things to solve anything.

In the modern world, this search for answers has taken a darker, more aggressive turn. If there were fewer migrants, if we could just build a wall; if we could break the shackles that bind us to Europe, if we could just go back to the way we were. Then, everything would be better. While making no judgement as to right and wrong, it is unsatisfactory to anchor oneself to easy “truths”, and in the process be blinkered to alternative arguments.

Mr Rollins warns of the deadly ramifications of taking this too far. The rise of fascism in Europe in the 1930s is posited as evidence: the far right gorged itself on the despair wrought by the consequences of the Great War and the economic travails of the Depression, exacerbated in Germany by ravages of hyperinflation, and the subsequent worthlessness of money.

While not suggesting that we are on an identical road right now, there are echoes of this all across Europe. Populist parties are in the ascendance. In the UK, we can recognise in Brexit the characteristics of an “*objet a*”, and it comes in two flavours: let’s get out, and everything will be better; and let’s revoke Article 50, forget it ever happened, and everything will be better. The reality is both of these views are bunkum.

Mr Rollins’ power of “contradiction” is the counterbalance to this rather gloomy narrative. He explains contradiction as a willingness to explore the fertile middle ground of compromise. This may sound like desperate naivety, but it is worthwhile bearing in mind that democracy does indeed rely on the existence of a viable, acceptable opposition. The problem with political extremes is that it degrades this viability as opinions – and ultimately policies – march further and further apart. In the US, whenever Donald Trump is called out for the extremism of his behaviour, he doubles down. Rather worryingly, we have seen echoes of this behaviour in our own Parliament. The traditional parties have shifted further right and left, and there is a vacuum where the middle ground once existed. In a recent BBC Radio interview (5 Live Drive, 30.10.19) former Cabinet Minister Sir David Lidington, 27 years an MP, described his gut-wrenching decision to leave politics, dismayed as he was at the degree of bitterness in Parliament. In the same interview, Labour Shadow Cabinet Minister Teresa Pearce described the normalisation of anger and the hatred being directed at MPs. This has all increased over the last three years. And yet, both also

spoke warmly about the collegiate approach of cross-bench committees, and how necessary it is to respect the integrity and motives of your political opponents. Although this interview took place with the backdrop of over 50 MPs declaring their intentions not to seek re-election in the upcoming election, it does suggest that there are still some burning embers of compromise within the Palace of Westminster.

Moving forward

The referendum intended to decide, once and for all, the UK's future in the European Union took place on Thursday 23 June 2016. On Thursday 12 December 2019, a mere 1,276 days later, the British people will choose to elect their third Government in four years. To echo Winston Churchill, this may not be the beginning of the end, but we sure hope that it is the end of the beginning.

We would certainly welcome a period of stability. Global markets – both equities and bonds – seem to be teetering on the brink after 10 years of prolonged upward mobility. 2020 heralds a potentially explosive presidential fight in the US; the ECB running out of bullets in the face of a faltering German economy; and China facing the challenges of pro-democracy demonstrations in Hong Kong and a decelerating, debt-laden domestic economy.

So where may Mr Rollins' "contradiction" play a part? If there is a Conservative majority, as opinion polls suggest, we must hope that the current Prime Minister rows back from the more controversial rhetoric of the last few years (a much more liberal BoJo once occupied the post of London Mayor). The Labour Party does seem to be moving ever further left, and the recent departure of moderate Tom Watson from its ranks evidences this momentum (pardon the pun). A Labour majority does seem unlikely, but so many extraordinary things have happened over the last few years that it should not be discounted. In that instance, you would hope that a Labour Government may be prevented by either Parliament or law from exercising some of its more extreme economic plans. Of course, there could be some sort of cross-party deal, and the resumption of coalition politics and the real demands of compromise. Whatever the result, we hope that the outcome is an environment where there might be a retreat back towards the middle ground. "Contradiction" is meant to harbour an environment where opposite arguments are used as a creative force to drive discussion toward pragmatism. Blinkered, bloody-minded opposition – typically cloaked in "ideological purity" – is destructive.

The point is, if we can finally return to some semblance of political normality, UK markets may offer global investors a heady mix of value, stable democracy and government, stoked by fiscal stimulus. The light ahead may indeed be the end of a very long tunnel, rather than the edge of the abyss.

Our positioning

We think that it is therefore very important that we remain patient with our positioning in UK plc, and that we trust that the huge value we see in these stocks is eventually realised. This would come from two angles. The first is an earnings recovery fuelled by greater certainty, clearer political direction, a bump in sterling, and fiscal as well as monetary impetus. The second would be the long-awaited return of foreign investors after they virtually all cleared out after the referendum. As ever, we are not putting all of our eggs in one basket, but we are executing three meaningful wagers. Firstly, we recognise that large-cap value businesses will benefit from any re-allocation into UK markets, which would reflect a shift from momentum into value. Therefore, we own **Aviva, Legal & General, Lloyds Banking Group, BP, Royal Dutch Shell, SSE, WPP** and the like. All these businesses should attract attention from investors looking to play the UK as value.

Secondly, we want to own small and mid-caps which offer more direct exposure to specific areas of the UK economy: **Bellway** and **Berkeley Group** in the house building sector; **Restaurant Group** and **Halfords** as consumer facing plays; economically sensitive businesses like **Close Brothers**; cyclical plays as diverse as **Jupiter Asset Management** and **Senior Group**; or unique structural constructs such as **Big Yellow Group**. In addition, there is a shopping list of new ideas which will help to consolidate this exposure.

Thirdly, if we are looking to exploit value, so might others within industries, which could presage a round of M&A activity. Some of our businesses are perennial bid targets, such as **ITV** and **Imperial Brands**; others, like SSE, may offer a very attractive set of assets to cash rich buyers; and of course small and mid-caps are often fertile with possibility, with many great businesses languishing on low valuations.

Timing is uncertain, and the Brexit saga's delays have been frustrating for us all, but we are quietly confident that we are moving closer to a pivot in the UK market towards this value. And a pivot that we intend to exploit. 2019 has been a strong year in absolute terms, as we have posted good income and total returns, but we have lagged in the relative performance stakes because of our unwillingness to chase performance and betray our risk principles. We hope that we are approaching a turning point in markets when this prudence bears fruit. It does depend on a change in the environment that has existed over the last three and a half years. However, if this is a crossroads – if we can move away from being a society in opposition to ourselves and embrace some form of compromise – the road ahead may offer substantial opportunity. Here's hoping.

Recent trading: In a quiet month, we added to **Jupiter Asset Management**.

Companies seen this month: **CTS Eventim** and **WH Smith**.



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