

Rathbone SICAV Global Opportunities Fund

Quarterly update September 2021


In the third quarter, your fund returned 3.7% versus a 1.9% average increase in the IA Global sector. Since its launch on 11 March 2021, the fund is up 13.7%.

Markets are in a tug-of-war, being whipsawed by strong reopening demand that is battling a surge in COVID-19 cases, supply chain disruptions, persistent and sometimes shocking inflationary spikes and upcoming tapering. The healthy quarter-end returns belie significant volatility in the types of companies driving that outperformance as we jockey between reopening plays and long-duration (interest rate-sensitive) defensive 'growth'. The growing fear around persistent inflation – which seems uncontrollable in certain areas and may require more severe central bank tightening – triggered a sharp selloff towards the end of the period. As is so often the case at inflection points, the selloff hurt growth stocks and market 'winners' most acutely.

	3 months	6 months	Since launch 11 March 21
Rathbone SICAV Global Opportunities Fund	3.7%	14.6%	13.7%
IA Global Sector	1.9%	8.9%	10.4%

Source: FE Analytics; data to 30 September, L-class, in euros, mid price to mid price.

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



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.

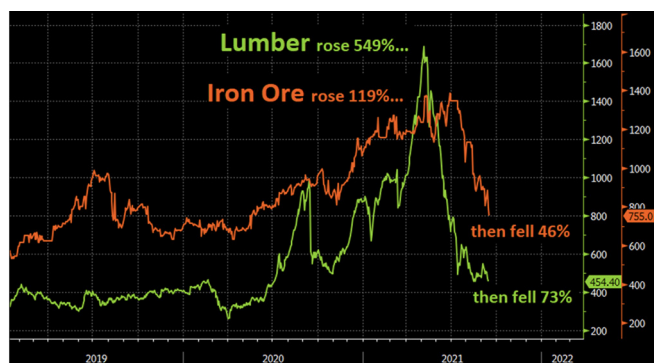
Pessimism is piling up...

In this economic recovery, the business cycle and the COVID-19 cycle have become intertwined but are moving at different speeds. The COVID cycle is high frequency and high amplitude, depending on outbreaks and mitigation efforts. These waves have knock-on effects for the lower amplitude and frequency business cycle, whose longer-term path is harder to discern. Add in fears of peak growth, upcoming tapering, China policy U-turns and the prospect of no petrol or Christmas presents and you can see why investors are skittish. While it may feel like bad news is piling up relentlessly, I don't think now is the time to exit. Many of these headwinds seem temporary (or are already discounted into prices) and have just lowered the bar for 2022 expectations.

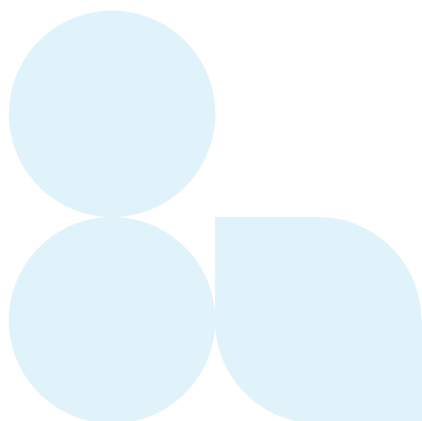
COVID has caused many disruptions and shortages. Despite a strong sales recovery, post-lockdown inventory restocking has lagged due to supply chain issues, distorting the current inventory cycle. Ocean freight rates are up from \$1,500 per container pre-pandemic to \$15,000-30,000 today. This is hitting retailers. While it sounds scary, financially it can be absorbed. To put the hit in perspective, it used to cost six cents to ship a single pair of jeans... it now costs 60 cents, just 1.5% of the value of a \$40 pair of jeans.

While many of the inflationary spikes we are seeing add credibility to the "persistent" inflation narrative, we often underestimate the effects of the supply-side response. Frustratingly, it's very difficult to analyse or estimate how long this response will take. The base case reaction often involves simple extrapolation and consequent panic (as can be evidenced by my mother's freezer full of Christmas food!). But there are good recent examples of inflation spikes in raw materials (e.g. lumber) that generated front page headlines only to have fallen back to pre-spike levels.

What goes up... can come down



Source: Baird



UK gas futures: when will this end?



Source: Bloomberg

Shifting with the times

Our technology exposure is still an important part of our growth portfolio, but we have reduced it from 29% to 20% this year to create the space for the industrials, consumer stocks, banks and medical technology names that we've been buying. We've done this as we've sought to build and maintain an appropriate balance between the tug-of-war between reopening and long-duration growth that will whipsaw markets. We believe some stocks in the 'old economy' will awaken from their hibernation as capex (capital expenditure) and capacity expansion plans are triggered to meet higher demand as many industries modernise and integrate digital strategies into legacy products and services. Meanwhile, during the quarter we have sold many of our weakest performing stocks. Some looked unattractive because of their high valuations and difficult growth comparisons; others were subject to the kind of political meddling that stifles innovation; and others seemed vulnerable to lingering longer-term cost inflation.

Q3 top contributors		
Sartorius	+21%	pharmaceutical, lab equipment supplier
Hypoport	+34%	technology-based financial service provider
Intuit	+13%	financial software developer

Q3 bottom contributors		
Ringcentral	-23%	cloud-based communications platform for businesses
Tencent	-19%	Chinese technology giant
Lamb Weston	-22%	potato processing giant

The deviation of our returns from one month to the next is very high at the moment, and markets are doing frequent 180-degree turns as investors move in herds and crowded positions get squeezed. We must be prepared for a continued rollercoaster in short-term returns, but also poised to be brave when investors are misinterpreting short-term dynamics.



James Thomson
Lead Fund Manager



Sammy Dow
Fund Manager

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A member of the Rathbone Group.
Registered No. 02376568

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