

# Rathbone UK Opportunities Fund

## Monthly update January 2023

### A fresh start

January continued the strong uptrend in markets that started in October. Economic data in the UK has been better than expected (though the opposite was true in the US, an unusual dichotomy in recent times), sterling has been steady, and the worst thing the Prime Minister did was not wear a seatbelt. Applause all round! With low valuations, too, the UK is offering a neat opportunity for investors looking for a fresh start. You might have to squint a bit, but allocations to the UK have started picking up.

We've been most reassured by the very decent numbers our companies reported during the month. Christmas trading is a make-or-break period for retailers and so gives a great read on the health of the consumer. So far, it's been a bit better than feared. Typically, when consumer confidence is as low as is currently being reported, retailers fare badly and the economy follows. This time, a very tight labour market has broken that link. Employed people are still spending money, using their savings to plug the gap from higher food, energy and mortgage bills. As inflation falls, households will feel richer. The Bank of England (and other central banks) are treading a tightrope as they try to bring inflation down without causing unemployment to rise *too* much. Investors have started this year by taking an optimistic view; we are watching leading indicators of employment very carefully to see whether central banks manage to pull off their tricky balancing act.

It's not just retailers that have been holding up – results have been decent for our portfolio holdings across the board. 'A bit better than feared' might become the catchphrase for this quarter. Cyclical, smaller companies and last year's losers have been the big risers so far, and your fund has kept abreast of this trend nicely.

### Moving on from the macro?

As we were reminded recently, our readers are probably more interested in our views on stocks than on the macro big picture. So we intend for this note to get back to focusing more on company-level developments, with the hope that the market does so too!

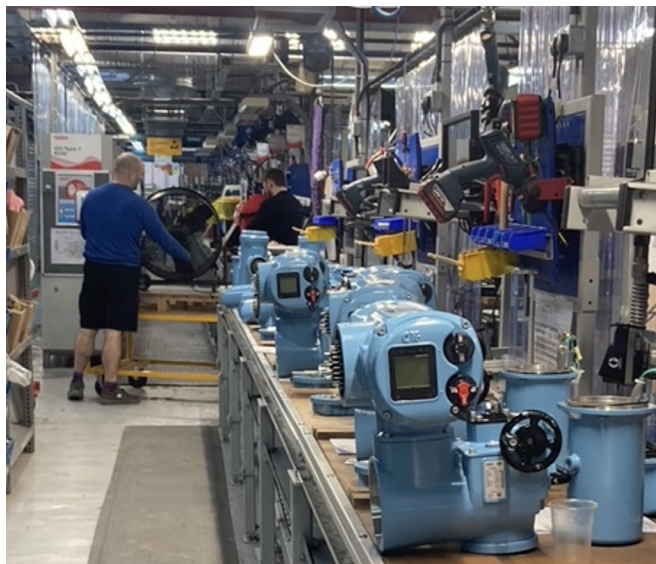
It's been a busy start to the year for the team; we've been out on the road seeing engineering and industrial companies. This is one of our favourite sectors for genuine stock-picking because it encompasses such diverse companies. The West Country is home to many of Britain's best engineering firms; global yet niche, small but critical. We visited flow control specialist **Rotork** in Bath, and car testing specialist **AB Dynamics** in Bradford-on-Avon, and later in the month innovative electronic component manufacturers **discoverIE** and **Oxford Instruments**. AB Dynamics impressed us hugely with its well-invested, highly technical and well-laid-out facility. Testing brakes, steering and suspension are all increasingly in vogue thanks to new European regulations, and AB is a market leader here. We saw its systems for testing vehicles in the lab, and enjoyed a head-spinning tour of its crash simulator. This is physics-based, not a video game, and allows developers to properly test their new vehicles much earlier in the design phase, meaning any required changes can be implemented more quickly and cheaply.

Here's the simulator, which can accurately show manufacturers how small changes in configuration would impact on vehicle safety.



Source: AB Dynamics

And here's Rotork doing a full stock-take ahead of implementing a new IT system to improve workflow in its factory. The blue machines are actuators – they use valves to control the flow of water, oil, gas, chemicals – utterly critical to lots of projects and industrial processes yet in no way a large proportion of their total cost. We saw some of Rotork's newer solar-powered and electric actuators, which will be crucial in the transition to greener energy.



Source: Gavin Laidlaw at Stockwatch, Rotork

We also visited a few companies we don't own, as a useful compare and contrast exercise. It's this sort of work that bolsters our confidence in our judgements of quality (execution, personnel, capital projects) in the names we envisage owning for many years.

There will be more to come from us this year about our adventures in UK PLC-land. We hope to give you a flavour of some of the businesses in your portfolio, to put a story behind the numbers, and showcase some of what we regard as the best of British stocks. After a tough year for UK mid-caps, the tenacity and scope of the engineers we've seen has proved a welcome (and inspiring) tonic.



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Fund Manager

Rathbone UK Opportunities Fund

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