Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone UK Opportunities Fund

Monthly update July 2021

Investors have had more to worry about in recent months than they did in the vaccine-jubilant first quarter. The surge in global growth seems likely to have peaked, new COVID-19 variants are emerging almost on a weekly basis, and China's 'whack-a-mole' regulatory crackdown is concerning. Broadly, when uncertainty rises, investors return to the relative safety of bonds, as well as to the highest quality equities. This has been a nice tailwind to your fund, which performed strongly this month on both a relative and an absolute basis.

Many of our companies delivered exceptional results during earnings season. We are hugely proud of what our businesses achieved in such a tricky period, notably, managing supply chain issues, more whipsaw lockdowns and a bumpy ride from the delta variant. These very companies that were able to demonstrate resilient and reliable growth outperformed during results season. It is reassuring that fundamentals do still count after a period when the market has been dominated by factor trading as opposed to stock selection.

Some companies are swerving immediate inflationary pressures...

Inflation continues to be the main discussion point in the market and for our companies. We think it's totally understandable that shipping routes, containers and factories are still working through the impact of the system getting totally gummed up during the worst of the global lockdowns last year. As the system clears, orders are met and demand smooths out, we believe that inflation is likely to subside.

To challenge this view, we are watching out for signs of wage increases that could set in train an inflationary spiral. Results season gave us some interesting colour – for the moment at least, the further removed from the consumer the better. For example, **Croda** (a top 10 holding in your fund) makes specialty ingredients that go into vaccines, moisturisers, fertilisers, laundry liquid and eye shadow. It reported very few problems in passing increased raw material prices on to its customers. But we heard from consumer staples names (i.e. Croda's customers) that passing these higher prices on to consumers is proving more challenging. For now anyway, it seems like there's a degree of protection in being one step removed from the cost-conscious consumer. This fund's mandate and style mean we tend to favour the value-add, Croda-type companies.

And tech continues to shine

Thanks partly to bond yields falling again and partly to fantastic results, our technology names drove returns again this month. Tech is our biggest overweight sector because these stocks often offer the resilient, reliable and scalable growth that we value so highly. It's also one of the smallest sectors in our benchmark index. Having seen where returns have been coming from in the world's best performing market (the US), we want to maximise our exposure here. **Kainos** and **FDM**, which provide businesses with tech consultants and contractors, and tech venture capitalist **Draper Esprit** are all unique business models with tech at their centre and which feature consistently on these pages.

That said, great tech in itself isn't a silver bullet. We have exited tech-focused business **Argentex** after a couple of disappointments. Argentex was hoping to do for small businesses' foreign exchange needs what Revolut has done for our holiday money. Banks have long made too much profit from small businesses' foreign exchange dealing. Using better tech, Argentex can cut these costs significantly. Clearly, COVID was a huge disruption for its clients, which led to lower foreign exchange dealing volumes. We like Argentex's business model, but it needs heavy investment to grow properly. A management change was the final straw for us, given that this is such a new and small business. And we have plenty of interesting new buy ideas to replace weaker names.

The rise of the delta variant has caused those stocks that benefit most from reopening to sell off. Unsurprisingly, our holding in **Johnson Service Group** was our biggest detractor. We took the opportunity to buy more – the data coming out of UK hotels and food service is stronger than expected despite the delta variant, so demand for Johnson's bed linen and towel laundry services is likely to follow.

The gyrations in the market driven largely by bond yields can be frustrating at times for fundamental investors. But we had some cash on hand so have been able to trade names that are being buffeted simply by being part of a theme or a basket. We expect to continue doing this over the rest of the summer.

Alexandra Jackson
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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