Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone UK Opportunities Fund

Monthly update October 2021

Investors continue to obsess about inflation as we head into the final months of the year. Soaring energy prices, queues at petrol stations and container ship bottlenecks certainly make for great press headlines. Yet while nervousness remains, we haven't noticed these topics attracting as much attention now they've begun to roll over. Gas prices are down more than 30% from their highs, freight rates have rolled over and even the great chip shortage appears to be improving. As always though, the most useful signals are coming from our companies. So far, earnings reports have been stronger and more resilient than we'd expected.

October was an 'in line' sort of month for your fund. Stock-specific news has been supportive, while the macro backdrop has proved more of a headwind. Bond yields spiked again as investors prepared for central banks, notably the Bank of England, to raise rates. (They have since dropped off noticeably following month-end.) And the FTSE 100 Index is enjoying a rare moment in the sun, thanks to its skew towards sectors that tend to do well when inflation and/or bond yields are rising. Against this backdrop, more value-oriented parts of the market – where your fund is underweight – outperformed. We don't own any banks or oil companies, which have done particularly well lately. We favour a more well-rounded investment case than simply, 'interest rates/oil prices are going up.' In six months' time the argument about rates may well look very different as inflation peaks and tax increases start to pinch. But for now, mid-cap areas (where we invest heavily) are giving back a little of their significant recent outperformance in favour of large caps.

Larger caps shine

For the first time in a while, our top monthly contributors included some of our large-cap positions. Specialty ingredients business **Croda** is doing a superb job in passing inflationary pressures on to its customers, the large household cleaning and consumer health/beauty companies. It also is benefiting from its contracts to supply ingredients for mRNA-based COVID-19 vaccines. Somewhat counterintuitively, given expectations of higher rates, real estate was also in the vanguard. Key outperformers included **Safestore** (the self-storage business with distinctive blue and orange storage units) and industrial property specialists **Warehouse REIT** and **Segro**, which both likely benefited from the UK's shortage of warehousing space that is driving up rents.

Our reopening names (for example, engineering group **Melrose**, uniform and linen supplier and launderer **Johnson Service Group** and travel retailer **WH Smith**) retreated again as concerns about a fourth wave of COVID infections grew. But the combination of booster jabs, new treatment pills – which appear to cut the risk of hospitalisation and death by 85% – and half-term school holidays seems to have controlled the outbreak for now. Israel's pioneering experience with booster jabs is very instructive (and very positive).

Quality not quantity...

We have not done a lot of trading this month. We've observed that market liquidity seems lower than normal for this time of year. We aren't entirely sure of the root cause(s) so we are treading carefully. Yet we find that short-term price dislocations can prove good sources of long term alpha, so we've been topping up old favourites like specialty insurer **Beazley**, ID technology developer **GB Group** and home construction and rental company **Grainger**, thanks to continuing inflows. We had earmarked some cash for IPOs, but the deals offered look markedly less attractive than those we saw earlier in the year, so we have stayed on the sidelines. As ever, our focus is quality and not quantity.

Alexandra Jackson
Fund Manager

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