

Rathbone SICAV Multi-Asset Total Return Portfolio

Update, November 2019

Overview

November felt like waiting in a green room for the action of December. Economic data were patchy, but markets were buoyed by the US Federal Reserve keeping interest rates steady and giving the economy an upbeat appraisal while stressing that it had no plans of restarting its hikes in 2020. American households remain in fine fettle, with unemployment super low and consumer confidence high.

The US and China came up with the shell of a 'phase-one' trade deal on the same day in December that the UK counted up its votes and discovered that the Conservative Party had won the largest majority since Margaret Thatcher. The trade deal was, of course, short on the detail, which will all be ironed out in January...

Early indications were that only some US tariffs on Chinese goods would be scrapped in return for China promising to boost American imports by at least \$200bn over the next two years. If true that would double the amount of American goods and services sold to China by 2023. Quite a target. Chief US trade negotiator Robert Lighthizer also seemingly heralded specific targets on products and industries, akin to import and export quotas that Washington imposed on Japan in the 1980s. Coupled with the news that the World Trade Organisation's disputes court is now defunct because the US blocked replacement judges, it appears we are entering an era akin to the 'might-is-right' trade environment of the 1980s. So not exactly what everyone was hoping for, and the chances of a 'phase two' agreement in President Donald Trump's first term seem slim.

This month's trades

We took profits in several companies that have shot up in price recently, ensuring that our portfolio remains balanced. They included **ASML**, which designs and builds machines that print computer-chips; food-testing and pharmaceuticals laboratory chain **Eurofins Scientific**; and **Aptiv**, which makes all the parts and software that goes into the increasingly complicated electrical arrays in cars (dashboard infotainment systems, seatback screens for the kids and the operating systems that let the car 'talk' to the engine).

Another slight trim to the portfolio was selling some of our shares in **HgCapital**, which is a portfolio of private equity companies in the UK and the Continent. In November, HgCapital's share price rose above its net asset value (NAV), meaning investors were willing to pay more for the shares than the assets were actually worth. We took the opportunity to rebalance our holding.

We sold Italian drinks giant **Campari** because it has embarked on an ambitious expansion into the US. Aperol Spritz is a common sight in bars around Europe and the UK, but America is a cold market. If the company can crack the US and gain traction with Americans, the profits could be phenomenal! Yet selling alcohol in the US is difficult. It's something that must be done state by state and with many, many sacks of cash for advertising and upfront inventory. For this reason – and given the business's high valuation – we believe the company is no longer appropriate for this portfolio.

We bought two companies for the first time last month. **CME Group** is the old Chicago Mercantile Exchange, which also swallowed up the New York Mercantile Exchange in its rise to the top of commodities and derivatives clearing and market hosting. The group runs many varied markets, but they all offer futures and options for traders and producers to either hedge their risks or speculate on prices. These are huge,

global markets and CME has the scale to bring efficiencies and the very best technology to bear. This company ticks many of our boxes: well-run, dominates its markets and reinvesting in its business to ensure its customers are happy and its niche is secure.

Clorox, the other company we added, is a California-based chemicals manufacturer that makes cleaning supplies around the world. Sounds hum-drum, but this company prides itself on constant improvement of its products, spending more on research and development than any of its peers. It enlists technology to automate much of the drudgery that accompanies chemical manufacturing, uses simulation software to help experiment less wastefully and encourages its marketing teams to embrace the dynamism, fun and effectiveness of digital marketing. All this technology helps keep employees using their brains and interested, making for low staff turnover. We believe the very best companies are those that are always striving to increase the gulf between their premium products and services and the competition. Clorox fits that bill.

Finally, the gold price came off its highs in November, so we bought some more at around the \$1,460 mark through the **iShares Physical Gold ETC**.

Outlook

Never has so much happened in a year, revolving around so little, while still leaving us essentially in the same place. The US and China still haven't sorted out their trade war – although a deal is promised in early 2020 – and Britain is only now putting on its boots to set off down its Brexit path after a hard-fought and rancorous election filled with accusations of antisemitism, bald-faced lies and some of the bitterest attack ads in the country's history.

Yes, we're being facetious. So much more happened during the year, it just really didn't feel like it. The spotlight has been extremely bright and focused on just these two issues. Another long-bubbling concern remains: everyone and his dog continues to worry about recession in 2020 – perhaps this timeframe will soon slip into 2021...

As for the UK, clarity has arrived – well, a year of it at least. Mr Johnson has pushed ahead with his plan to enact his deal and hammer out a free trade deal with the EU within a year. It's a tough target, but we are actually optimistic about his chances. With a larger-than-expected majority, we believe Mr Johnson has less reliance on the more eurosceptic wing of his party and, therefore, more wriggle room. That should allow him to push through his break with the Continent in a way that keeps many existing rules and alignment of processes. If we are correct, much of the work could well be done. Also, don't rule out the UK and EU sorting out its future relationship and trade arrangements in stages – much like the US-Chinese trade deal.

It has so far been a good year for investors, albeit the figures were flattered a little by the large correction in late 2018. That strong market performance seems to have been overlooked by many people. It was a strange and stressful year where virtually everyone seemed to be gloomy all the time.

It was a fun year to pick investments though. We've picked up many new companies that we are excited to watch grow over the coming years. We've also made a few interesting trades to protect your assets if markets do slump. With bond yields so low, you've got to think outside the box a bit when looking for portfolio protection. But we believe it is possible, and looking back over our blogs and notes, you'll be able to get a flavour of some of them.

Thank you for putting your money and your trust with us. We take the responsibility very seriously and hope we can help you reach wherever it is you're trying to get to with your wealth. Have a restful and enjoyable holiday break; see you in the new year!



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