

Rathbone UK Opportunities Fund

Update, January 2020

While the positive mood continued into the New Year for UK investors, markets weren't able to hold onto December's strong gains and by the end of January the FTSE All Share had fallen back -3.3%. The Rathbone UK Opportunities Fund returned +2.0% compared to a decline for our peers in the IA All Companies sector of -2.4%.

The outbreak in China of a hitherto unknown strain of coronavirus offset any relief investors were feeling from the signing of the "phase one" trade with the US, the dialing back of tensions with Iran and a respite from Brexit gridlock. Companies with exposure to Chinese customers, travel or supply chains have been hardest hit so far, but we are yet to see the impact on earnings.

Strong performance for the fund came largely from three outstanding stocks: video game publisher Team 17, rising 33.3% on yet another upgrade to numbers; fuel cell technology company Ceres Power, up 61.1% after Bosch took a stake; and robotic process automation specialist Blue Prism, up 54.0% on excellent results. All three are AIM listed. We have slightly trimmed our holding in Team 17, which has trebled in price since coming to market in May 2018.

Our holding in Royal Dutch Shell continues to hurt performance, even after reducing it by a fifth. In today's market, stocks with strong environmental, social and governance (ESG) credentials are attracting inflows while ESG-unfriendly companies like oil, mining and tobacco are being sold down. We have a lot of sympathy with this viewpoint and see ESG as another essential plank in the investment process. But at with the shares now slated to return up to 10% to shareholders this year, with a commitment to -energy transition, Shell looks like it might have been punished enough for now.

We have exited a small holding in database software company First Derivatives after a disappointing run and a slower product uptake than expected. We have also exited distribution business Bunzl after seeing growth slow, acquisitions dry up and customers starting to disintermediate Bunzl's model. We owned Bunzl as one of our bullet-proof vests, but it has become less defensive as a business model, and higher beta as a stock. As a result, cash has increased to almost 5%, which we will use to top up some UK-facing names.

In the UK evidence is coming through of the much anticipated Boris bounce. Business sentiment is improving, consumer confidence has spiked, and the housing market appears to be coming back to life. The Chancellor is likely to loosen the purse strings in his March Budget to help support the rebound, and the Bank of England maintains some monetary fire power in the event of a hard Brexit at year end. And so the fund continues to maintain high exposure to domestically focused businesses that already have a strong structural tailwind.



Alexandra Jackson
Fund Manager

This is a financial promotion relating to a particular fund. 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 may go down as well as up and you may not get back your original investment.

Source performance data, Financial Express, mid to mid, net income re-invested.