Contact us 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

Rathbone UK Opportunities Fund

Update, February 2020

Markets were initially very strong in February, and we were outlining a melt up in some of our quality growth mid-cap names. The economic data had also been looking pretty strong, with appealing strength in the UK in particular. Earnings announcements from companies have been broadly positive. But towards the end of the month, as Covid-19 cases spread from China to South Korea and Japan, into Iran, Italy, then into the rest of Europe and the US, markets fell rapidly.

Your fund is not immune to a global sell-off, and it is performing in line with expectations. Over the month, the fund fell 9.7% versus -9.4% for our peers in the IA All Companies sector and -8.9% for the FTSE All-Share Index.* The FTSE AIM and FTSE SmallCap indices underperformed large caps, likely due to poorer liquidity in these areas.

Our fund is reasonably well positioned against the effects of Covid-19 given we own no mining companies, airlines, luxury goods companies or cruise operators. But if the UK implements aggressive containment policies, some of our domestic consumer-facing holdings may see lower demand. We don't own any pubs, restaurants or cinema companies, but we are maintaining a watching brief on the rest of the portfolio.

Our main areas of focus at the moment:

- Direct exposure to China, where the lockdown imposed on parts of the country will have a marked impact on GDP growth. Less than 3% of our fund's revenues are generated in China. Our sole travel-related exposure is to airport and railway restaurant operator **SSP** (<2% position), which we have been trimming since last summer.
- Disruption to supply chains caused by the lockdown: we have a big overweight in industrial businesses, so we've been busy talking to our companies to assess any long-term damage to supplier relationships. So far the message is more positive than we had expected, with CEOs telling us their factories are back to high levels of production.
- The oil price has been hit hard due to fears that supply of oil will outweigh demand – in the short term at least. We are very underweight oil & gas. **Shell** is the only company we hold in the sector and it makes up less than 2% of the fund. We are exposed to oil and gas industry spending, mainly via software business **AVEVA** (<2%), yet there will be other indirect exposures in our industrials holdings.

A few of our holdings could see some upside from the virus, such as flexible-working phone software business **Gamma Communications**, and video gaming company **Team17** – demand for games could spike if people are forced to stay at home. Both stocks have held up well.

Another dynamic we have noticed, mainly in small and mid-caps, is that recent winners were sold down hardest. This hurt your fund given our recent strong outperformance. The qualities that attracted us to these companies are those that will also ensure they bounce back very strongly: superior growth, strong balance sheets and experienced management teams who know how to handle downdrafts. And while the lower liquidity we experience in small and mid-caps can exacerbate down moves, it can also amplify a rally.

This sell-off is likely to go on a little longer as investors adjust to assessing the rapid spread of a virus in real time. News has never flowed this fast – and plenty of fiction has mixed with the facts. The terminal spread and impact of Covid-19 is still so unknowable. A vaccine looks at least a year away. Meanwhile, traditional government and central bank stimulus may not be as helpful here. Cheaper borrowing won't push frightened consumers to head to the shops … we are watching credit spreads to monitor signs of stress in the system.

We still have cash to deploy and we have an extremely strong list of high-quality growth names that we would love to own, given a better opportunity. It looks like that opportunity is now very close.

Alexandra Jackson
Fund Manager

***We aim to deliver a greater total return than the FTSE All-Share Index, after fees, over any five-year period. Total return means the return we receive from the value of our investments increasing (capital growth) plus the income we receive from our investments (dividend payments). We use the FTSE All-Share Index as a target for our fund's return because we want to offer you a better return than the UK stock market. We also compare our fund against the IA UK All Companies sector to give you an indication of how we perform against other funds in our peer group. Apart from investing exclusively in the UK, the funds in this sector aren't always similar to ours.**

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.