Rathbone SICAV Multi-Asset Strategic Growth Portfolio

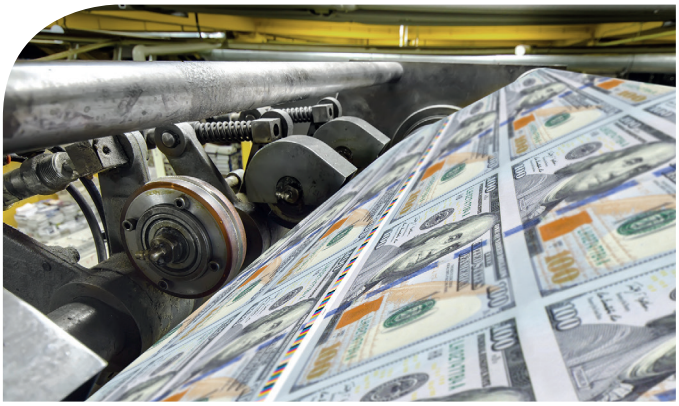
Quarterly investment update, January to end March 2020

Rathbones

Look forward

Hot topics – 'Top-down' (market and macroeconomic)

Unprecedented reactions. The spread of the pandemic across the world has been matched by truly enormous support packages from central banks and governments. The US, Europe and UK in particular have rolled out trillions of dollars of furlough schemes, bargain loans, grants, bolstered unemployment benefits and the obligatory quantitative easing (QE). This is a welcome response to a global health emergency,



and a much more timely reaction than during the credit crunch a decade ago. But now we're into the crucial bit: execution. The UK has staked everything on its furlough scheme, yet the ranks of unemployed are rising fast anyhow. The Universal Credit system takes five weeks to pay out in normal times. And even with the COVID-19 supplement, the benefit covers just 20% of the £30,000 median annual wage. Families with more than £16,000 in savings are ineligible for any aid, those with more than £6,000 get their payments docked. American unemployment benefits are much more generous, especially so after the pandemic boost. The average unemployment insurance benefit is actually higher than the median full-time wage. Early reports say US states have been completely overwhelmed by the millions of people attempting to sign up for the dole. Yet millions of payments have been made. The federal payments are taking longer. You can write all the cheques you want, but they're worth nothing if you can't send them out quick enough. This is an unprecedented situation for governments and it has been met with an unprecedented response. This gives us both cautious hope and sceptical misgivings in equal measure. We think economies will bounce back sharply once the lockdowns are ended, but at a lower level than before the crisis.

Oil slick. Petrol stocks fell off a cliff in the first quarter. Given that much of the world is in lockdown and the roads are empty, it follows oil companies won't be making money for a while. But what doesn't follow is that these businesses are worthless, that they will never make money again. Our world is powered by carbon and will continue to be after the pandemic. We need to change this situation, but for the next few decades at least crude oil will provide a hefty slice of our energy needs, not to mention packaging and other industrial and chemical uses. Meanwhile, many of these companies have expanding alternative energy businesses too. The oil majors we own have manageable levels of debt, good quality wells with low extraction costs and enough cash to get through months of reduced demand. That's why we've been confident in rebalancing our portfolios by buying more shares in them at depressed prices. The April agreement between OPEC and Russia to cut a tenth of global production should also help the situation.

Phase three. In February, when COVID-19 started to spread rapidly into the West and markets slid south, it was impossible to establish how 2020 would go. But we realised that this would be a sharp, short-term shock and we needed a plan to ensure

we took advantage of any opportunities while keeping our risks measured. We quickly formed a three-phase plan: 1. Rebalance our portfolio by adding to our stocks into the dips, focusing on those with the strongest finances; 2. Increase the equity weighting in our portfolio; 3. After several bouts of market falls, we would start to increase the cyclicality of our portfolio if the end of lockdown is in sight. We have stuck to this plan despite how uncomfortable it has been at times. But those days when you can almost feel the terror hugging you, tend to be when you should be buying. It has worked well for us so far. As of mid-April, we had been from phase one, to two, retreated to one and then moved swiftly back through two and crept into phase three. Hospitalisation, ICU and death rates appear to be flattening across the West, which means an end to the lockdown should soon be in sight. In fact, some European countries have already relaxed their restrictions and the eastern states of the US are already in the planning stage. Throughout the crisis, we kept an eye on the prices of stocks on our 'bench', some of which we have subbed into the portfolio.

Portfolio activity

Key purchases/additions
Thermo Fisher Scientific (new purchase)
Microsoft (new purchase)
Ansys (new purchase)
Cadence (new purchase)
Equinix (new purchase)

Key sales/trims
UK Treasury 22/10/2029 (sale)
iShares FTSE 100 ETF (trim)
RBC Capital Markets 10108 S&P 500 Put Warrants (trim)

Source: Rathbones

When the markets really slumped on 18 March we made a large purchase of the **SPDR S&P 500 ETF** to rebalance our exposure to US equities. Around the same time we bought the **US Treasury 1.75% 2023** to bolster our portfolio protection.

The VIX S&P 500 volatility index spiked higher than levels seen during the global financial crisis in March, giving us the opportunity to sell our **S&P 500 put contracts** for a significant profit. Puts give us the option to 'sell' our US exposure at a set level in return for paying a small premium (effectively this works like investment insurance). Because this level was much higher than the index at the time, our option was worth a lot of money. Selling part of our put contract had the effect of instantly increasing our portfolio's net equity exposures as well. Our remaining put contracts are still 'in the money' (the S&P index level is below the 'strike price' that we can 'sell' at). They will offer material support should markets fall further.

The lower market level has also presented us with a number of opportunities to add exposure to some quality companies who have exciting long-term prospects, but whose valuations were too expensive for us just a few months ago.

We added **Cadence**, a provider of software used in the designing, testing, verifying and implementing of semiconductors. We think the semiconductor industry as a whole will benefit from the structural trend of technological advance and proliferation of new applications. Cadence has a strong competitive moat built up over years of high spending on research and development.

With virtually every business and government on the planet reliant on the internet for operating - and most people bingeing on streamed television, we thought it made sense to snap up **Equinix**. This global real estate investment trust builds and runs data centres for networks and cloud providers. This is really cupboard-under-the-stairs stuff for one of the most exciting industries in the world. Reliability is the watch word for this company, however. Keeping the digital lights on is crucial for its customers, so there is a bit of execution risk here, particularly in the middle of a pandemic.

We also added computing giant **Microsoft** to the portfolio. This company's Windows and Office software continue to grow steadily while newer products like Azure cloud computing, the Dynamics business analytics and customer relationship management system, and LinkedIn offer accelerating growth. The company has kept its debt levels relatively low and has a history of strong earnings expansion.

Finally, we bought US laboratory equipment business **Thermo Fisher Scientific**. This high-quality company should play an increasingly critical role in diagnostics and testing over the long term.

Spotlight

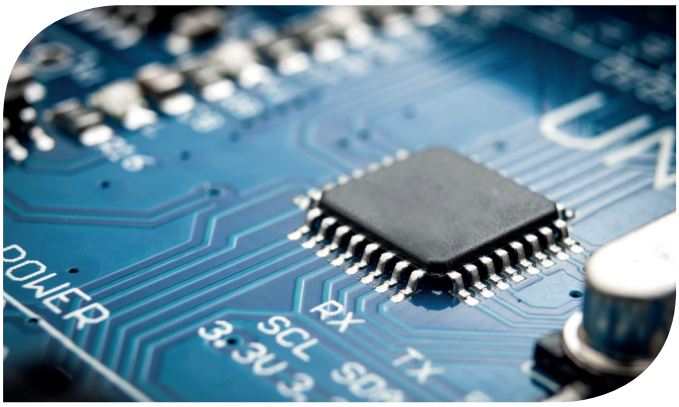
In this quarter, the spotlight is on **Amgen** and **Cadence Design Systems**.

Amgen

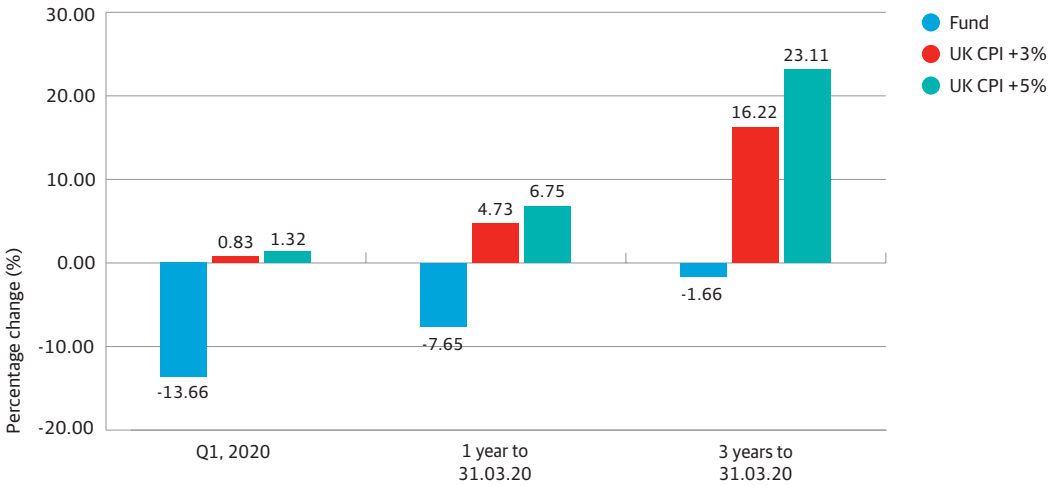
- A highly innovative global biotech company that focuses on cures for diseases using living systems and organisms rather than plants and chemicals
- Key focuses on oncology (cancer), haematology (blood), cardiovascular, inflammation issues, bone health, neuroscience, and kidney care
- Their three main franchises are in the areas of arthritis, anaemia, and reducing risk of infection during treatments like chemotherapy
- Amgen has a number of new drugs in development that have the potential to be blockbusters, along with other drugs that are currently a small part of markets like cholesterol reduction and that could have a strong future
- They are pioneering new delivery systems to reduce the number of injections for treatments, which cuts time and cost
- The company is well aligned with the increasing need for medical treatment as the global population ages

Cadence Design Systems

- Cadence is a multinational electronic design automation software and engineering service company that focuses on highly specialised areas
- Electronic design automation refers to software used for the design, testing, verification, and implementation of semiconductors – which are vital components of electronic devices such as microchips for phones and computers
- The testing and design of these semiconductors is incredibly complex so manufacturers rely heavily on the electronic design automation software that Cadence provides – it is absolutely critical to the process
- Microchips continue to get smaller and more complex with more innovation and applications over time – as this trend continues it increases the critical nature of Cadence's software, which should offer the chance to grow even when the semiconductor cycle goes through a soft patch
- This software is highly specialised and therefore the market is effectively a duopoly with only one other key provider
- The semiconductor space should continue to see high levels of growth as technology advances and continues to become ever more ubiquitous in far more tasks in our everyday lives – Cadence is ideally placed to benefit from this with their leading and critical software



Fund performance



Performance (based on 'L0-class' shares; 1.50% annual management charge). Net of expenses and tax. Net income reinvested.

Data source: Financial Express

Our benchmarks are calculated on the rate of change of the CPI index, over different time periods (e.g. if we were calculating year to date figures in January 2019, we would look at the percentage change from December 2018 to the end of January 2019). So we take CPI to the current value, and add on the 3% to 5% respectively, prorated over a year (roughly 0.25% and 0.42% per month). If the CPI Index benchmark were to fall, more than the amount pro-rata, the benchmark year-to-date will be negative, even though inflation as reported by the media (calculated specifically as a 12M rate of change), remains positive.

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.

The investment objective of the sub-fund changed on 25 March 2019 due to the sub-fund ceasing to be part of a master feeder arrangement. Therefore, performance in the chart shown prior to this date was achieved under differing circumstances.

Top performers (%)		
Holding	**Performance**	**Contribution**
RBC Capital Markets 10108 S&P 500 Put Warrants	+1,208.95	+0.46
JP Morgan 10109 95% Strike S&P Dec 20 Put Warrants	+354.94	+0.41
Clorox	+21.35	+0.06
iShares Physical Gold ETC ETF	+13.02	+0.16
Amazon	+12.41	+0.07

Bottom performers (%)		
Holding	**Performance**	**Contribution**
Micro Focus International	-62.33	-0.77
ITV	-56.28	-0.43
Discover Financial Services	-54.01	-0.74
Aptiv	-44.33	-0.61
Fevertree Drinks	-41.15	-0.27

Note: Top and bottom performers are taken from the list of all holdings of 0.25% and above of the portfolio.
Performance and contribution data shown above is based on unhedged GBP capital returns.
Performance (table above only): Gross of charges.

Source: Rathbones

As you would expect, the two put options we own in the fund as a kind of crash protection, one with a July expiry and the other December, were material contributors to performance over the quarter and helped the funds weather the drawdowns in equity markets. As markets continued to fall the options moved into the money, at which point the gearing came into action meaning the further markets fell, the sharper the rises in the price of the put options and the more support they provided.

Equities clearly suffered as markets fell across the globe but there were some bright spots in the portfolio where the falls were much less than the market, such as **Abbott Laboratories**, **Electronic Arts**, and **Ansys**, or indeed where the stock produced a positive return despite the market turmoil, such as **Clorox**, **Ubisoft**, and **Amazon**.

Gold has been a bit of a head-scratcher at times but over the quarter was up and a positive contributor to fund performance. At times the expected negative correlation between gold and equities during times of stress broke down temporarily. Rather than being a fundamental breakdown of this correlation, we believe these few days where equities fell and gold along with them, were likely due to technical factors. Ultimately we still see a place for gold in the funds to protect us in times of market and geopolitical stress but also, as we have discussed previously, we believe that gold will see ever higher demand as more debt, both government and corporate, trades at negative yields across the globe.

Fund performance (continued)

Currency hedging had a negative impact over the quarter as we entered the year with around 70% of our USD and all of our EUR hedged back to GBP. Unfortunately GBP fell during the quarter so the hedges we had in place took away most of the positive return we may have seen from owning overseas currencies. We must admit, the EUR strength is a little perplexing as we cannot see any clear reason for the currency to strengthen against GBP, but USD remains a safe haven currency so those moves look easier to rationalise. During the quarter we did take the step of reducing our USD hedge back to around 50% as we believe owning more USD in this environment may prove prudent if we do see another lurch down from equity markets.

Asset allocation change and strategy

Asset allocation split	31.12.19	31.03.20	% Change		12 month change	
Liquidity assets/lower volatility	26.35%	23.06%	-3.29%	▼	-4.93%	▼
Equity-type risk (economically sensitive assets)	66.41%	66.87%	+0.46%	▲	+0.63%	▲
Diversifiers	7.24%	10.07%	+2.83%	▲	+4.30%	▲
	100.00%	100.00%				

Asset class split	31.12.19	31.03.20	% Change		12 month change	
Equities	63.06%	64.06%	+1.00%	▲	+3.50%	▲
Index-linked bonds	0.70%	0.90%	+0.20%	▲	+0.11%	▲
Conventional government bonds	11.98%	15.31%	+3.33%	▲	+7.31%	▲
Corporate bonds	0.93%	0.86%	-0.07%	▼	-2.61%	▼
Emerging market debt	1.83%	1.45%	-0.38%	▼	-0.30%	▼
Private equity	0.59%	0.50%	-0.09%	▼	-0.03%	▼
Alternative investment strategies	0.56%	2.24%	+1.68%	▲	+0.35%	▲
Property	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Commodities	5.09%	5.90%	+0.81%	▲	+2.02%	▲
Cash	15.26%	8.78%	-6.48%	▼	-10.35%	▼
	100.00%	100.00%				

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Asset allocation ranges

Liquidity	Equity-type risk	Diversifiers
5% to 40%	40% to 80%	0% to 40%

Investment outlook

We rode out the initial corona crash because of our focus on quality companies with the business models and light debt loads to better cope with an economy in shutdown. We did well out of the subsequent rebound because we stuck to our guns and bought more shares in these companies when most other investors were running for safety.

Now, as the global pandemic appears to be approaching crescendo we're slowly increasing the size of our investments in companies we already own that have more cyclicality to them – those businesses that are tied more closely to the ups and downs of GDP growth. We're looking for those stocks that may help us in the second wave of a recovery once confidence really starts to improve. No airlines, carmakers or retailers, but quality companies that look quite cheap because they're in the sectors that nobody wants to buy.

We're also, where it makes sense, searching for equity-like risk in other markets. Many emerging market debt markets and high yield bonds are 'bombed-out' right now. Much of that is warranted, but not all of it. Where the potential rewards well outweigh the risks we are buying these assets to increase our exposure to the 'beta' of global markets at much more attractive prices.

We're not trying to make money over a month or three or six. Our strategy is aiming to make hay over five years, 10 years, or even longer. We're making sure that we stay disciplined and keep enough liquid assets on hand to ensure we're never forced sellers of our riskier assets. We're confident that the companies we are investing in during this crisis will still be around – and thriving – in a few years' time.

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Rathbone Unit Trust Management Limited
Authorised and regulated by the Financial Conduct Authority

A member of the Investment Association

A member of the Rathbone Group.
Registered No. 02376568

Management company:
FundRock Management Company S.A.
Authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier

Rathbones
Look forward

When operating in the EEA, Rathbone Unit Trust Management works in partnership with a tied agent. In Europe we market our funds through Rathbone Funds Advisers, Unipessoal Lda. ("Rathbone Funds Advisers") a company acting as a tied agent to Carne Global Financial Services (Europe), Unipessoal Lda. ("Carne Global") which is an investment advisory firm authorised under MiFID II and supervised by the Portuguese Securities Market Commission – the CMVM (Comissão do Mercado de Valores Mobiliários). Rathbone Funds Advisers is registered in Portugal and has been appointed by Carne Global to provide investment advisory services on its behalf in relation to financial instruments, in particular units or shares in undertakings for collective investments.

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