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Rathbones
Look forward

Rathbone Global Opportunities Fund

Update, September 2019

In September, the Rathbone Global Opportunities Fund returned -3.2% versus a 0.2% average for the IA Global sector. Year to date your fund is up 23.2%.

Your fund underperformed this month as investors rotated out of 'growth' stocks and into 'value' names that have lagged for many years. Some analysts now suggest that 'value' is so under-owned that it must be bought, despite its symbiotic relationship with the strength of the global economy. In other words, in order to reduce portfolio risk you have to buy cyclicality. Gulp.

We have a long-standing aversion to the most economically dependent sectors of the market, areas that have become 'value' plays in recent years. They include energy, mining, autos and interest-rate-sensitive banks. Instead, we prefer companies with all-weather growth qualities and resilience.

We agree that there could be some sharp moves into value companies over the next few years. But that's exactly it: we think there will be many lurches toward value, simply because each of these surges won't last. We believe investors will, in this slower-growth world, keep returning to those companies that really do offer reliably higher earnings. We believe that growth companies will continue to be the best place for investors over the span of years. But you will have to stomach some spicy ups and downs in-between.

In a cruel repeat of last year, it has been an ugly start to the fourth quarter, with widespread de-risking. There is a tug of war going on between deteriorating economic indicators (primarily industrial and manufacturing) and a robust consumer aided by dovish central banks. The US-China trade war is probably the tie-breaker now. Some strategists believe poor economic data is actually a reason to buy stocks as they think it might constrain Donald Trump from throwing more tariffs on the fire while also encouraging more aggressive rate cuts.

As is so common when investor sentiment inflects, this month's worst performers were our best performers in the lead-up to September. Technology stocks, our specialist financials like **PayPal** and **Visa**, and healthcare equipment companies like **Sartorius** and **Idexx Laboratories** underperformed this month. This is a 'who's who' of our best performers over the last few years. The absolute worst performer this month was **Match Group** (-16% in September but still +67% YTD); the online dating business fell back as investors used the American launch of Facebook Dating to take profits. The jury is still out as to the traction that Facebook will get – it launched over 18 months ago in some international markets with very little success, but Facebook is a wily competitor with deep pockets so we watch it respectfully.

The best performers last month were in areas like industrials and banks, where we have precious little exposure. So many of these businesses are just proxies for GDP growth. Our best performer this month was one of the few industrial companies we own, **Amphenol**. This US company is at the forefront of the continued electrification of our world. Its cables, connectors and sensors are mission critical for using your phone, watching TV, storing your data, driving your car, or even the planes you catch. Alongside Amphenol's market-leading positions, its decentralised structure fosters a nimble and customer-centric approach, allowing it to keep growing share in what remains a burgeoning market.

Another key contributor to performance last month was the only bank we own, a regional lender called **First Republic** that services high-net-worth clients. In 2016, this was our first investment in a traditional bank in the entire history of the fund. We took the leap because First Republic is doing something different: it's a whites-of-your-eyes bank with a reputation for the best service in the industry, where loan decisions are made locally by the branch manager not by a centralised credit-scoring database. We greatly respect the differentiated business model in a me-too sector, but even First Republic is facing a structurally higher cost base in the near future. Loan growth is very strong, but deposit growth is much slower. First Republic will have to access higher-cost wholesale funding which will inevitably pressure net interest margins. There is much more competition for retail deposits now and core IT spending will have to accelerate materially to satisfy the next generation of tech-savvy customers. We used strength in the shares to sell the holding this month. We are 'bank-less' once again. Luckily we still own our pawn shop business, **First Cash**, a vital source of financing for the 25% of Americans who are underbanked and have little access to the full range of banking products.

We continue to have significant exposure to the US (66%) and our weighting in the UK is just 4%. Obviously Brexit remains the largest risk to near-term performance due to its dramatic potential impact on sterling. If Boris Johnson pulls a rabbit out of a hat and gets a clean deal in the next few weeks, sterling will soar and our performance will be hit as we don't hedge overseas currency exposure. It's impossible to handicap the odds of the outcome but it remains an obvious source of near-term volatility. The other source of a sharp snapback is the 'value' versus 'growth' debate. Better-than-expected economic data or a left-field agreement on trade could encourage investors to swarm to bombed-out 'value' businesses.

Some businesses are great businesses and some are poor – others are simply rafts floating on the waves of global GDP. We spend our days trying to find great businesses because we think it takes much smarter guys than us to forecast one of the most complex systems on earth.

James Thomson
Fund Manager

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Assistant Fund Manager

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

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