Rathbone Unit Trust Management
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Rathbones
Look forward

Rathbone Global Opportunities Fund

Update, November 2019

In November, the Rathbone Global Opportunities Fund returned 3.4% versus a 3% average for the IA Global sector. Year to date your fund is up 25.3%.

Virtually everyone has been too bearish this year: too defensively positioned, hoarding cash or both. This has been one of the most unloved rallies in history. Many of those investors can no longer take the pain, and have started flocking back to stocks over the past couple of months. There are plenty of bears left to emerge from the cave, so this rally probably has legs through Christmas. But unexpected bull markets can make investors more trigger happy than usual, as they can't withstand 'down' stocks in an 'up' market….the pressure to 'keep up' is even greater and this skittish behaviour can create opportunities (and frustration).

As we approach the UK election, sterling moves will be the key driver of UK-based investors' short-term performance. We have very little exposure to UK equities (4.3%), but like most IA Global funds we are unhedged, so currency movements will impact our fund's daily price. In the event of a hung Parliament, sterling will probably weaken, which would benefit our fund in the short term. If the Conservatives gain a majority then the pound will likely strengthen, although markets have already started to account for that probability, sending the currency higher in anticipation.

While our fund has enjoyed a year of healthy returns, it has certainly been a game of two halves. The first half of the year was underlined by fear of recession and investors put a premium on reliable and resilient growth. This reached a peak at the end of the summer as angry rhetoric over the US-China trade war pushed the global economy closer to a downturn. But as pragmatic diplomacy emerged and the US Federal Reserve started insurance cuts, risk appetite surged and took economically sensitive 'value' stocks higher. As a 'growth' focused fund, the shift into value has proven a headwind, but to be sustained it requires a strong economy, not one that has frequent false dawns.

Some of our holdings don't always fit the straight definition of growth or value – sometimes they have both ingredients. A good example is **Autodesk**, one of our top-performing investments last month. Autodesk produces critical design software for engineers and architects – the same software that is given to universities for free to help train them up. Autodesk indoctrinates the industry early. The company is exposed to cyclical end markets, such as architecture, construction, and manufacturing, so it's often viewed as economically vulnerable. But the business model has changed, as succinctly summed up by Wells Fargo analysts: "In 2008, 40% of revenue was maintenance based, recurring in nature, and nominally grew (1-3%) during this period. Today 96% of revenue is recurring; if you stop paying, the product stops working. The increase in feature functionality is only available on subscription which helps to maintain or increase customer spending over time."

Our worst performers last month were holdings that had already significantly outperformed and were seen as a source of funds in favour of earnings recovery plays (i.e. the 'value rotation). Defensive businesses like **Idexx**, which manufactures diagnostic machines for animal vets and then provides the results through its lab network. An increase in the amount of blood work, chemistry and other diagnostic tests makes this another highly durable business with recurring revenues that benefits from improving standards of care at your local vet. This is driven by the humanisation of animals: our love of animals ensures they receive the very best medical treatment. But as economic optimism improves, businesses like this are not leveraged into the recovery because they didn't suffer in the lead-up. That's why we try to maintain a balance of high-quality growth companies that have varying degrees of perceived economic sensitivity.

James Thomson
Fund Manager

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Assistant 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.

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