Rathbone Unit Trust Management

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Rathbones
Look forward

Rathbone Greenbank Global Sustainability Fund

Quarterly update December 2021

Markets had a split personality over 2021. Running hot, then cold, then hot again, investors struggled to determine how each wave of the pandemic would affect GDP growth, inflation and earnings — both in the next quarter or two as well as in the fullness of time.

Markets swayed between bouts of outperformance for 'value' companies that would benefit from accelerating economic expansion and sustained inflation and outperformance for 'growth' names whose values are based on consistent, multi-year earnings increases that are largely uncoupled from the business cycle. At the end of the year, both camps had done very well indeed. Markets had another strong year, despite the awful virus that continues to pester us, and your fund was no exception.

	3 months	6 months	1 year	3 years	Since launch (16 July 18)
Rathbone Greenbank Global Sustainability Fund	5.4%	9.6%	15.6%	91.7%	69.8%
IA Global Sector	4.7%	6.7%	17.7%	65.4%	50.3%
FTSE World Index	6.9%	9.1%	22.1%	69.0%	57.1%

	31 Dec 20-31 Dec 21	31 Dec 19-31 Dec 20	31 Dec 18-31 Dec 19
Rathbone Greenbank Global Sustainability Fund	15.6%	32.5%	25.1%
IA Global Sector	17.7%	15.3%	21.9%
FTSE World Index	22.1%	12.7%	22.8%

Source: FE Analytics; data to 31 December, S-class, mid price to mid price.

These figures refer to past performance, which isn't a reliable indicator of future returns.

The value of your investments and the income from them may go down as well as up, and you could get back less than you invested.

Despite COVID, another strong year

Our 2021 annual return wasn't as high as that of 2020 — a truly astonishing year driven by the recovery from the initial shock of the pandemic — but it was a solid one all the same. It would have been much better, too, but for a tough December.

As 2021 ground towards its end, investors became increasingly concerned that inflation was here to stay, and that it would soon force the hand of the US Federal Reserve (Fed). The Bank of England became the first major central bank to react to rising prices and increased its Bank Rate to 0.25% in mid-December. In the early days of 2022, interest rate markets forecast that the Fed would make three or four 25-basis-point rate hikes in the coming 12 months, with the first virtually nailed on for March. The sharp movement in these expectations of the future economic landscape caused equally sharp falls in many growth companies — including more than a handful of the ones we own.

While these falls are painful, we believe they are short term and we have instead focused on ensuring that each business we hold has a strong franchise and is doing the right thing by its shareholders, the planet and the people on it. These are the crucial characteristics for whether a business will stand the test of time and deliver strong returns, in our view, not whether they should be classified in a bucket labelled 'growth' or 'value'. There will be ups and downs along the way, but as long as we hold companies that have good cultures, solid fundamentals and thoughtful staff, they should do alright.

Organic industry

We are looking for the best possible businesses that are helping make the world better over a series of decades. When we find them, it then comes down to price: is it right for the opportunity offered? As we mentioned, 2021 was a year of whiplash-inducing ups and downs from one month to the next. We tried to use this volatility to adjust our portfolio by trimming some companies whose share prices had got pretty expensive and using the cash to buy other, more attractively priced businesses.

By the first few weeks of the fourth quarter, this had organically changed the industry make-up of our fund somewhat. We entered the last leg of the year with about 30% of our portfolio in industrial businesses, compared with 24% at the beginning of the year. This shift partly protected us from the December sell-off in growth and tech companies, but it was not enough to avoid the damage completely.

US creative industries software developer **Adobe** was one of the businesses caught up in the sell-off. We increased our position in the company after its share price dipped following a disappointing earnings announcement. The negative reaction was driven by Adobe managers offering conservative guidance. Some investors worry that customers have brought forward their purchases because of the pandemic, and therefore future sales growth will be lower. We think this view is misplaced. To us, the growth roadmap for the next several years remains extremely strong. Adobe has scope to keep compounding its earnings at a very attractive rate, given its dominant position in the market — its tools are mission-critical for many creative industry businesses and workers.

We also added to **RELX**, which publishes specialist journals for academia, medicine and the law. We think its valuation is attractive, with its core scientific and legal businesses in robust shape. We're confident that its conferences division should get a nice tailwind as soon as COVID-19 is behind us.

The true potential of Canadian ecommerce platform **Shopify** is continually underestimated, in our opinion. The company's share price has had a tough six months, and it's had a rocky start to 2022, so we took advantage by buying more. This business is very popular among small and mid-sized businesses, offering them a full white-labelled digital sales system, from website design and hosting to payment, shipping and after-sales care. Shoppers' desire for the boutique and the unique is good news for small businesses. And it is also a strong dynamic for companies like Shopify that give them a platform to sell to the world. There are literally millions of small merchants and artisans out there, and each one of them could boost their business tremendously by using quality ecommerce tools. Critically, Shopify allows its customers (and they are big as well as small) to retain control over their own customer data and shopping trends, an invaluable source of information to those businesses which helps them grow.

We also added to simulation software developer **Ansys**. Again, we think this business's potential for growth is compelling. Simulation is a phenomenally helpful tool for all sorts of industries. It helps companies invent new products with a fraction of wasted raw materials. It helps them think through product lifecycles and improve maintenance, which costs money and development time. Added to that, there's less going to landfill, too, which is great for the environment. Ansys is the clear leader in this field, so it should benefit over the coming years as industry continues to digitise.

We increased our holding in back-up generator manufacturer **Generac** to a full position size. Generac provides critical back-up power to residential and commercial buildings. It has a diverse product range and a strong reputation for the reliability and durability that is so crucial in its line of work. We think that its move into more renewables-based back-up power solutions opens up another growth opportunity for the business and should drive the development of clean tech.

This quarter we sold all our shares in **Chr Hansen**, the Danish speciality cultures and enzymes business. We became increasingly frustrated with the volatility of its growth in sales and earnings and we were concerned that its capital allocation discipline had deteriorated. If management can address these issues, Chr Hansen could become attractive to us again, so we will continue to monitor it.

Another exit was hearing aids and audio products specialist **GN Store Nord**. The company grew its earnings significantly in 2020 as demand for work headsets and consumer earphones soared. However, this year we became increasingly concerned about the product pipeline in its hearing aid division. Not only that, but management seemed unable to manage costs, which were growing. We had little confidence that these issues would resolve themselves in the next year, so we sold.

We also sold our remaining holdings in **Clorox**, the US cleaning and household products company. While there was evidence of improving profit margins, we couldn't get excited about its opportunities for growth in 2022. Also, the scale of investment required to address supply chain and IT issues meant risks were higher than the rewards, in our view.

Finally, over the quarter we trimmed US faux wood composite decking producer **Trex** and **Littelfuse**, a supplier of high-quality fuses and sensors for electric vehicles. Both companies remain core holdings in our portfolio, we simply thought it prudent to take profits and recycle the cash into less-expensive areas.

David Harrison
Fund Manager

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 and the income from them may go down as well as up and you may not get back your original investment.

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