**Rathbone Unit Trust Management**

**Contact us** 020 7399 0399 rutm@rathbones.com

Rathbones
Look forward

# Rathbone UK Opportunities Fund

## Quarterly update March 2021

In the first quarter, your fund returned 2.5% versus an average 5.8% increase in the IA All Companies sector.

| | 3 months | 6 months | 1 year | 3 years | 5 years |
|---|---|---|---|---|---|
| **Rathbone UK Opportunities Fund** | 2.5% | 19.7% | 45.9% | 18.6% | 43.6% |
| IA All Companies Sector | 5.8% | 22.0% | 38.0% | 14.7% | 38.9% |
| FTSE All-Share Index | 5.2% | 18.5% | 26.7% | 9.9% | 35.7% |

| | 31 Mar 20-31 Mar 21 | 31 Mar 19-31 Mar 20 | 31 Mar 18-31 Mar 19 | 31 Mar 17-31 Mar 18 | 31 Mar 16-31 Mar 17 |
|---|---|---|---|---|---|
| **Rathbone UK Opportunities Fund** | 45.9% | -12.9% | -6.7% | 6.2% | 14.1% |
| IA All Companies Sector | 38.0% | -19.2% | 2.9% | 2.7% | 18.0% |
| FTSE All-Share Index | 26.7% | -18.5% | 6.4% | 1.3% | 22.0% |

Source: FE Analytics; data to 31 March, I-class, mid price to mid price.

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

**Consistency through the noise...**

The first quarter of 2021 has proved hectic. The backdrop was mostly much barking about inflation and interest rate expectations as pent-up demand is unleashed (and resulting swings in the fortunes of 'value' versus 'growth' stocks). But there were also vaccine spats, 'third waves' and renewed European lockdowns, hedge fund implosions and the blockage of the Suez Canal. Through it all your companies have carried on doing what they've been doing for some time now. That is, reporting solid earnings and remaining conservative in guidance on future growth.

Over the quarter, the market favoured domestically focused value stocks over their 'growthier' counterparts. Unsurprisingly, this has weighed on the short-term performance of this midcap growth fund. We remain confident that our focus on stocks that we believe offer consistent and reliable growth potential will prove more attractive on a medium-term view than buying into more fundamentally challenged businesses that may enjoy short-term boosts. Meanwhile, we are pleased to report that several of your holdings continue to display the operational resilience that we regard so highly when underwriting investment opportunities.

Of note, IT reseller **Softcat** reported exceptionally strong numbers as fears proved unfounded that COVID-19 might curb the near-term IT spend of its small and medium enterprise client base. In fact, management reports that COVID is driving the consolidation of client supply chains, which benefits Softcat as a leading provider.

**Volution**, a supplier of ventilation products for residential and commercial new builds, also reported positive numbers and anticipates post-COVID tailwinds in the form of greener building regulations. The company's management has improved profitability sooner than we expected, allowing it to fire up an accretive acquisition programme. Volution's forecast earnings to July 2021 have increased by 40% in response, and the shares have broadly matched these gains in the year to date.

Perhaps the only major disappointment was premium mixer drink producer **Fever-Tree**. Its management guided down on margins for the year as a result of elongated lockdowns and expectations that demand might be strongest in the US, which is not yet as profitable as other markets. The market reacted negatively to this, which we view as short sighted. Lockdowns will pass and Fever-Tree's brand has been enhanced over the last year given its dominance in supermarkets/off-licences. We also believe that Fever-Tree enjoys strong growth potential given its expansion into Asia and Europe, as well as the US. We took advantage of the market's impatience by adding a bit more to our position.

### Backing 'back to work' while staying with 'stay at home'

We added several new positions to your fund over the quarter. The most notable included construction and industrial equipment rental company **Ashtead**, which is listed in the UK but predominantly operates in the US. A thus far strong industrial rebound, with further fiscal stimulus likely to stoke more demand, should create opportunities for the company to expand the footprint of its high-returning rental model.

We took shares in the IPO of software provider **ActiveOps**. Its workforce management software allows managers to ensure that teams working remotely operate efficiently, and helps managers spot overloads and resource bottlenecks. The COVID-driven surge in working from home has ensured that ActiveOps is certainly benefiting from a bit of a 'purple patch' right now, but we think its proposition enjoys stickability. We also like the simplicity of the business model and its conservative management team.

We also participated in the IPO of greeting cards company **Moonpig**. Like ActiveOps, Moonpig has fared well in COVID-dominated conditions. It has seen huge increases in the number of customers sending its online cards during lockdowns. But we believe the company has longer-term attractions, given its excellent margins, returns and cash generation. There is also the potential to increase the proportion of customers who buy gifts alongside a card.

Meanwhile, we opted to trim our exposure to renewable energy firm **Ceres Power**. The shares have serially outperformed ever since we first bought them back in August 2019 and its valuation has come to reflect more than we could ever hope for in the medium term. We also trimmed our long-standing holding in self-storage company **Safestore** because we want to slightly reduce our exposure to defensive names in favour of companies more exposed to economic recovery.

### A(nother) great British summer?

The UK government plans to allow nonessential international travel to resume on 17 May. But its planned 'Traffic Light' system introduces extra planning complexities, cancellation risks and costly PCR testing requirements. We believe this will leave around 68 million Brits facing few realistic alternatives to another Great British Summer!

Last summer saw booming food, furniture and home renovation sales as people diverted their holiday budgets to spending at home. Similar trends are emerging today. New car sales are growing again, domestic music festivals have sold out en masse and summer 'staycation' bookings have increased sharply despite much higher prices. The GfK consumer confidence index suggests that UK consumer confidence is approaching pre-pandemic levels.

These trends mean we expect the domestic market to benefit significantly from pent-up consumer demand in coming months. We have consequently been adding to our existing exposure to domestic consumer themes (hospitality, fashion, hobbies/gaming, real estate and home renovation) and also to industrial stocks likely to benefit from the reopening of the broader economy.

**Alexandra Jackson**
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.**

**Rathbone Unit Trust Management Limited**
8 Finsbury Circus, London EC2M 7AZ
Tel 020 7399 0000
Fax 020 7399 0057

**Information line**
020 7399 0399
rutm@rathbones.com
rathbonefunds.com



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