

Rathbone Global Opportunities Fund

Monthly update May 2021

In May, your fund was down 3% while the IA Global sector averaged a fall of 1.1%. Year-to-date, the fund is up 3%.

Whiplash markets continue – marked by explosive rallies and disheartening retreats from one month to the next as investors play tug-of-war between deflation and inflation. The longevity of the inflation spike and the consequences of economic growth overheating are being weighed against a booming earnings rebound in many sectors that were deeply wounded by the pandemic.

Recovery bets in the ascendant

Oil and gas, mining and interest-rate-sensitive banks have delivered returns of 20% to 45% year-to-date! If you've been underweight these sectors – as we have, disliking their reliance on a booming economy – you've been licking your wounds. The wall of money chasing environmental, social and governance (ESG) strategies will be bothered by this leadership as these industries screen poorly on ESG criteria.

Ours is not an ESG fund, but we embrace forward-looking companies willing to 'invest to adapt' to secure their independence and fortify their 'mission critical' status. We don't have a template of what we'd like the world to look like, but ESG factors often jive with the resilient and accelerating growth that we're looking for – [perhaps that's why we have quite a high sustainability rating](#) even though we're not an ESG fund. But it's clear that ESG approval is not a moral absolute or an unambiguous harbinger of future performance, so we think the best strategy is to be ESG aware, while not screening out entire sectors.

We rarely invest in banks and resources companies because the investment case tends to be at the mercy of fluctuations in the price of their commodities (be that interest rates or ore), something few of us can reliably predict. However, we don't rule them out entirely if the main driver of their success is within their control. We have found several quality companies in these industries which should be able to take advantage of a deflation-driven cycle while avoiding much of the vagaries of interest rates and commodity cycles. These businesses include **First Republic**, a bank and wealth manager for high net worth American clients, and **Silicon Valley Bank**, which specialises in commercial banking for high-tech start-ups in

the most innovation rich economy in the world. We also own US aggregate giant **Martin Marietta**, which supplies concrete, asphalt and rock to the building industry and infrastructure, a heavy commodity that has rarely seen price drops because it must be delivered locally to be economic.

Our investment process remains a recipe that changes, adapts and learns from its inevitable mistakes over time. It is not a checklist.

Focusing on likely winners in reopening's next phase

The tug-of-war in markets is playing out between earnings recovery and resilient growth stocks, which reflect the economic forks in the road. This isn't a value fund so we won't invest in companies with high earnings volatility that will crumple if the stimulus-driven economic boom hits the skids. But we must be adaptable and self-aware enough to realise that the pandemic winners that drove performance in 2020 will not be leaders in the next phase of reopening. Over the last six months, we have meaningfully reduced some of our technology and consumer staples exposure that had reached peak valuations due to pandemic-related economic uncertainties. We were spoiled for choice in terms of potential replacements, yet we sought to become more balanced by factor and earnings drivers. As a result, we have invested in companies that benefit from improving capital spending plans, infrastructure rebuild, so-called 'revenge' spending in retail, and regional banks which we believe offer their customers something unique.

In a value-driven market, we will always lag the greatest beneficiaries of the earnings snapback. But that's no excuse for burying our heads in the sand. We have made some exciting changes to focus on what we think will be the leaders in the next phase of the roaring international reopening.



James Thomson
Lead Fund Manager



Sammy Dow
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.