Rathbone Greenbank Strategic Growth Portfolio

Quarterly investment update, April to end June 2022

Rathbones
Look forward

Professional Adviser PA Awards 2022
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Best Multi-Asset Fund: Risk Managed

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Multi-Asset Group of the Year

Hot topics – 'Top-down' (market and macroeconomic)

Ebbing power. As Russia's war in Ukraine grinds on, the continued flow of gas to Europe gets ever more precarious. Supplies have already been shut off completely to five smaller nations, while six more (including Eurozone engine rooms France, Germany and Italy) have had their consignments

severely curtailed. Yet more cuts could be on the cards. Ironically, an exceptionally hot summer has led to unseasonably high energy demand because of people cranking up the air-conditioning. European countries – including the UK – have done well finding alternative energy import partners, yet completely reconfiguring your energy complex takes more than a few months. Continental gas prices have shot roughly 60% higher since the end of March. Put another way, the benchmark European gas price is now almost nine times the average price of the past decade. When you get down to brass tacks, energy is key for economic activity. You need people, sure, but without energy you have no technological uplift. Bluntly, it's the difference between you putting together your flatpack furniture with a screwdriver or doing it with a power drill. The extra cost of power – and don't be fooled, natural gas is the keystone of most European power grids, accounting for a quarter of all energy use – will make Europe's potent manufacturing sector less competitive and squeeze its people's wallets, hurting cafes, bars, restaurants and retailers. This is why we're worried about the potential for recession in Europe and the UK this year.

Fixed income foxtrot. Bonds are often thought of as the boring market, yet they have been absolutely wild so far this year. Hopes, dreams and despair have flowed through yields as investors flick from fear to optimism and on to different concerns in a restless foxtrot. This has been happening week to week and often day to day. The three broad scenarios swirling round are: the risk that inflation lingers higher and longer than anyone wants; that higher costs crimp the spending of households and businesses, causing a recession; and the gold-toothed rooster itself – that inflation fades quickly allowing central banks to slow their interest rate hikes. Ten-year government bond yields, on both sides of the Atlantic, have fallen back about 50 basis points or more from their mid-June peak after a series of worrying economic data. The yield drop was more pronounced in Europe and the UK, because of the recession risk we noted before. Even after the pullback in yields, we think investors are assuming too many rate hikes over the coming months. The global economy seems just too fragile for the phenomenal tightening that markets are implying. Because

of this, we think bond yields are finally starting to look attractive again. The inverse relationship between bond and stock markets is starting to reassert itself, which makes them much more helpful for portfolio diversification.

Earning respect. As for stock markets, the upcoming earnings season will be more revealing than ever. With the wider

economy a whodunnit and nerves running high about how central banks will proceed, investors are eager to hear how companies are feeling. The probability of recession has risen significantly so far this year, and cost pressures for businesses are high because of rampant inflation… yet earnings forecasts haven't dipped at all. Consensus profit estimates from analysts are pretty high, given the circumstances, yet it seems like investors themselves are expecting disappointments. Outlooks will be watched closely for signs of impending disaster (even small, cautious asides tend to cause punchy falls these days). We think the reported results will differ markedly company by company, as will the commentary around what the future may bring. It will no doubt be another volatile period, one that we hope will throw up some opportunities to take profits and add to quality companies at a discount.

Portfolio activity

Key purchases/additions	Key sales/trims
Deere (new purchase)	Vestas Wind Systems (sale)
S&P 500 Put Spread (new purchase)	Aviva (trim)
European Investment Bank 0.75% 2030 (addition)	Generac (trim)
New South Wales Treasury 2.5% 2032 (addition)	Sampo (trim)
	Mastercard (trim)

Source: Rathbones

As bond yields rose sharply over the quarter, we used the weakness to add to our holdings of the **New South Wales Treasury 2.5% 2032** and the dollar-denominated **European Investment Bank 0.75% 2030** bonds.

We used market weakness to buy tractor and farm machinery manufacturer **Deere**. The opportunity for powerful new products and services in farming and food production has interested us for a while. The war in Ukraine has only reinforced our belief that food security and the need to boost yields while protecting soil and the climate is one of the paramount issues of our age. Technology, as always, is the solution. Deere is the leader in the high-quality machinery that does the heavy lifting in all sorts of agriculture and horticulture around the world.

We frequently use stock market options and structured products to build protection into our portfolio. Options are tradable contracts with investment banks that give us the right to 'buy' (calls) or 'sell' (puts) a certain value of an index which has the effect of limiting our exposure to market fluctuations. Structured products work in a similar way, except they are more like contracts that pay out gains in set situations and lose money in others. When stock market volatility is high, the value of these sorts of assets increases, making it more expensive to buy more of them. Because of the recent elevated volatility, we thought a straight replacement of our recently matured vanilla **S&P 500 put option** was too pricey. We still wanted the protection, however, and we felt a 'put spread' was a cost-effective option. This is cheaper yet only protects us if markets drop between 5% and 25%. Given how far markets have already fallen, we felt this was a reasonable risk to take.

We sold Danish wind turbine manufacturer **Vestas Wind Systems** because we felt there were better places to invest, given the increasing costs of materials, labour and transport in an environment where it may become increasingly difficult to pass on costs.

Spotlight

In this quarter, the spotlight is on our **Ball Corp** and **Owens Corning** holdings.

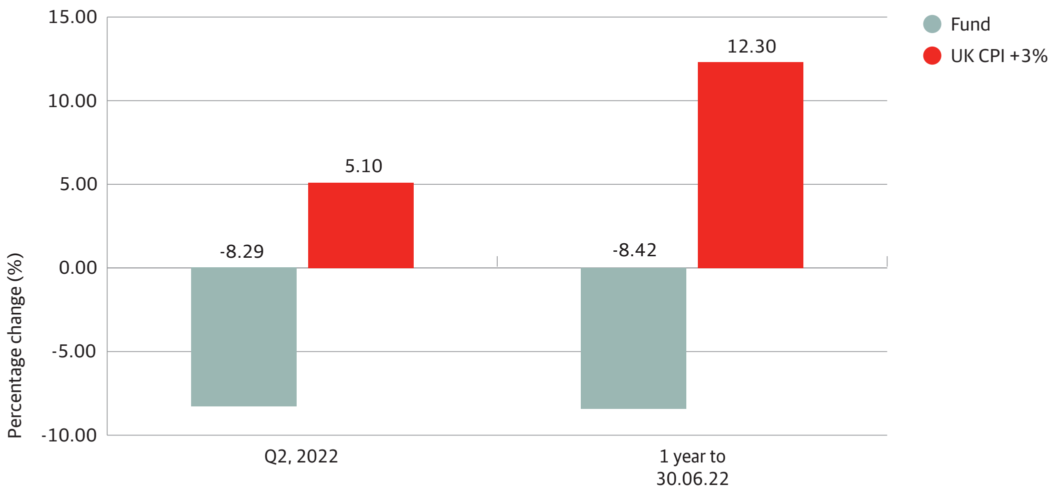
Ball Corp

- Ball Corp is a world leading provider of sustainable aluminium packaging solutions for beverages, personal care and household products including beverage and aerosol cans and bottles
- Their innovative aluminium cans are a beneficiary of both the huge consumer preference shift towards sustainable can packaging rather than plastic or glass packaging, as well the regulatory focus on companies to reduce their carbon emissions and plastic waste
- Alongside their packaging products, Ball Corp also provides unique graphic design and printing technologies to their customers to help them enhance their brand value – these customers include some of the largest holding companies globally in a variety of key markets providing Ball Corp with a reliable and strong growth trajectory and high margins
- Major retailers and event venues are selling the 'Ball Aluminium Cup' which is an infinitely recyclable, lighter and studier alternative to single-use plastic, whilst being made up of 90% recycled aluminium
- Their sustainability strategy and products are aligned with a truly circular economy and they are working with industry leaders to meet their goal of increasing the global recycling rate for aluminium beverage cans from 69% now to 100% by 2030

Owens Corning

- Owens Corning is a US company providing solutions for building and remodelling including insulation, roofing and fiberglass composites (of which it is the world's largest manufacturer) to residential, non-residential and industrial markets
- There are many secular trends for which Owens Corning should be uniquely positioned to capture growth, including: increased premium on living spaces, changing construction practices, more consumer demand for sustainable building solutions and increased regulatory requirements for energy efficient buildings, as well as accelerating investment in infrastructure particularly across the US which has seen a solid residential backdrop
- Market leading brands, innovative capabilities, a best-in-class commercial team and contractor network provides them with pricing power which means they are able to pass on some inflationary price increases to maintain margins
- Their insulating products help customers conserve energy, and their Pink Next Gen Fiberglas insulation is made with recycled glass (with the highest recycled content in the industry) and saves 12x the energy used to produce it in just one year
- Other recent sustainable product innovations include a carbon-neutral line of stone wool insulation and insulation which is optimised to demonstrate a greater than 80% reduction in embodied carbon

Fund performance



Performance (based on 'S-class' shares).
Net of expenses and tax. Net income reinvested.

Data source: FE fundinfo

Discrete annual performance					
Year to:	**End Jun 2018**	**End Jun 2019**	**End Jun 2020**	**End Jun 2021**	**End Jun 2022**
Fund	–	–	–	–	-8.42%
UK CPI +3%	+5.49%	+5.04%	+3.56%	+5.19%	+12.30%

Price performance based upon single price (mid). 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.

Top performers (%)		
Holding	**Performance**	**Contribution**
Société Générale US rates Volatility Trend Note	+20.21	+0.16
AIA	+13.07	+0.14
Littelfuse	+10.57	+0.11
Verizon Communications	+9.47	+0.10
Société Générale US rates Volatility Note	+8.81	+0.16

Bottom performers (%)		
Holding	**Performance**	**Contribution**
Shopify	-48.98	-0.39
Dexcom	-36.64	-0.28
GN Store Nord	-23.66	-0.17
Vestas Wind Systems	-23.37	-0.16
ASML	-23.14	-0.23

Note: Top and bottom performers are taken from the list of all holdings of 0.25% and above of the portfolio.
Performance and contribution data shown above is based on unhedged GBP capital returns.

Source: Rathbones

As the second quarter of 2022 proceeded, we began to see a little less of the commodity-centric and value-based performance from markets that was characteristic of the first quarter of the year. Instead that environment gave way to a broader risk-off sentiment that began to impact all risk assets as investors seemingly began to move to price in the increased risk of recession. Given this sentiment, many of our assets within the Diversifiers component of the portfolio were the most helpful at providing protection and returns during the quarter. The **US rates volatility notes** again benefitted from additional volatility in US rates, our **Nasdaq put option** which expired in late April provided support in the early part of the quarter and expired slightly in the money (index price below the strike on the put option) and our **emerging markets FX momentum note** also contributed positively to performance. The **three-year steepener note** we added in May to help protect against further steepening of the US yield curve also immediately made a positive contribution to the fund.

Similar to the first quarter of the year, our holdings in more traditional 'value' type sectors such as financial services and telecommunications were the main contributors to performance including the likes of **AIA**, **Verizon Communications**, **Sampo** and **Vodafone** – as well as **GSK** in pharmaceuticals. **Littelfuse**, a US company which manufactures and sells circuit protection, power control and sensing products, also performed well following solid earnings results which saw their quarterly revenue up year-on-year and beating analyst estimates.

Fund performance (continued)

Given the falls in equity markets it is of course no surprise that equities overall were the largest performance detractor. US equities were again the largest detractor. **Shopify** continued to see pain from the move away from growth stocks on top of a weak Q1 exacerbated by their announcement of further capex to bolster their fulfilment capabilities. We remain confident that Shopify have the right long-term strategy to be a key player in the ecommerce channel in helping small and medium-sized enterprises sell effectively online and move to have their own brand identities. **Dexcom** was also a key detractor from performance as the stock sold off meaningfully given its premium valuation. However, to us Dexcom remains a very high-quality business who has the market leading CGM device for the monitoring of the blood glucose levels of diabetes patients. Sadly, diabetes continues to be on the rise globally and the CGM devices sold by Dexcom help medical professionals provide better clinical outcomes via more closely, and accurately, monitoring patients.

Asset allocation ranges

Liquidity	Equity-type risk	Diversifiers
5% to 40%	40% to 80%	0% to 40%

Asset allocation

We steadily increased the duration, or interest rate sensitivity, of our bond portfolio over the quarter. We also added slightly to investment grade corporate bonds.

Asset allocation split	31.03.22	30.06.22	% Change		12 month change	
Liquid assets	31.02%	27.44%	-3.58%	▼	-0.13%	▼
Equity-type risk	64.28%	66.17%	1.89%	▲	-0.91%	▼
Diversifiers	4.70%	6.39%	1.69%	▲	1.04%	▲
	100.00%	100.00%				

Asset class split	31.03.22	30.06.22	% Change		12 month change	
Equities	57.73%	57.04%	-0.69%	▼	-3.56%	▼
Index-linked bonds	1.26%	1.27%	0.01%	▲	-0.69%	▼
Conventional government bonds	7.86%	9.43%	1.57%	▲	0.85%	▲
Corporate bonds	15.99%	20.41%	4.42%	▲	4.54%	▲
Emerging market debt	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Private equity	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Alternative investment strategies	4.70%	6.39%	1.69%	▲	1.04%	▲
Property	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Commodities	0.00%	0.00%	0.00%	◀▶	0.00%	◀▶
Cash	12.46%	5.46%	-7.00%	▼	-2.18%	▼
	100.00%	100.00%				

Asset allocation (continued)

Sustainable category split	31.03.22	30.06.22	% Change	
Decent work	13.74%	14.75%	1.01%	▲
Resource efficiency	7.00%	7.34%	0.34%	▲
Habitats and ecosystems	0.00%	0.00%	0.00%	◀▶
Inclusive economies	3.83%	4.85%	1.02%	▲
Energy and climate	17.02%	17.43%	0.41%	▲
Health and wellbeing	12.33%	12.91%	0.58%	▲
Resilient institutions	8.45%	9.27%	0.82%	▲
Innovation and infrastructure	20.47%	21.60%	1.13%	▲
Diversifiers	4.70%	6.39%	1.69%	▲
Cash	12.46%	5.46%	-7.00%	▼
	100.00%	100.00%		

The 'resilient institutions' category includes government bonds.

Investment outlook

Weak sentiment surveys – from households through to businesses and investors – have combined with disappointing retail sales and Purchasing Managers' Index (PMI) readings to renew worries about a global slowdown. The cost of living has skyrocketed all over the world, pinching many people's spending power. Meanwhile rapid rises in the cost of labour and raw materials have tripped up more than a few companies reporting earnings.

Still, these concerns clash with the sugar rush from reopening, driven by pent-up savings and boredom. At least for now, to paraphrase Cyndi Lauper, many people still seem to want to have fun. Flights are full again, and restaurants and pubs seem to be doing alright. But the question is how quickly people may rein in spending as the summer of high prices rolls on. Wages are rising though, which could offset some of the effects and support spending.

We're feeling better about the prospects for the US, rather than Europe and the UK, where the Ukraine war and upended energy markets are having a greater impact. This year has been a painful one for holders of US companies, yet we remain comfortable with our exposure to these businesses and have added steadily to them throughout the quarter's drawdowns.

Meanwhile, it's bye bye for Boris Johnson after one scandal too many. The Prime Minister's widespread popularity with voters gave him more lives than a pack of cats, yet the final straw was two crushing by-election defeats: one in the 'Red Wall' that he had three years ago delivered to his party and the other in a supposedly safe seat won by roughly 20,000 votes in each of the past three elections. Like clockwork another booze-fuelled scandal appeared for the government, giving 50 ministers and appointees the excuse to resign. Johnson finally decided to go himself, sparking another monkey knife fight for the leader of the Conservatives and the keys to Number 10.

The effect of Johnson's resignation on the UK market and sterling shouldn't be overstated. Given the government's poor polling and the recent by-election defeats, together with the cost-of-living crisis, the Conservatives are highly unlikely to hold a general election until they absolutely have to – likely in January 2025 because of The Dissolution and Calling of Parliament Act. So this will simply be a case of swapping one Conservative leader for another.

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Rathbones
Look forward

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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