Rathbone SICAV Multi-Asset Total Return Portfolio

Quarterly investment update, October to end December 2022

Rathbones
Look forward

Professional Adviser AWARDS 2022 WINNER Best Multi-Asset Fund: Risk Managed

Professional Adviser AWARDS 2022 WINNER Multi-Asset Group of the Year

This is a marketing communication

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

Exit, followed by inflation. US Federal Reserve (Fed) hikes are no longer transitory. The Fed raised interest rates rapidly in 2022 as it chased after runaway inflation. The benchmark US rate jumped from 0.25% at the start of the year to 4.5% by its end, the sharpest one-year US hike fest since the early 1980s. Inflation started falling in the second half of the year, but it's still very high, both in the US and the rest of the world. So, the big question is: how much further will the Fed – and the other central banks – go with tightening? Inflation at between 7% and 11%, depending on your locale, is a long way from the 2% targets. Central bankers will want to see inflation shrinking undeniably before they ease off. However, they, more than anyone, know that it takes between one and two years for the full effect of a rate movement to hit businesses and households. That means the American economy is still digesting the first 25-basis-point rise of March 2022. There's another four percentage points coming down the pipe. Investors sniff that the Fed must have to halt soon before it overdoes its tightening (we think it has already). Yet every time bonds and stocks rally in anticipation of a 'pause', the Fed is quick to talk tough, battering prices back down. It's confusing and it is a major cause of the volatility in both bond and stock markets in recent months. We think the Fed won't hike much more from here, despite its rhetoric, yet we think forecasts of rate *cuts* in 2023 are unlikely. Inflation should continue to fall steadily from here, but it will plateau higher than central bankers' targets. Meanwhile, the risk of recession in the US, Europe and the world is very high. It should be shallow but looking at the economic data and the tightening yet to be felt, a downturn seems inevitable. Hopefully the Fed sees sense.

Back to the cycle. Since 2008 we haven't really had an economic cycle. Covid-19 interrupted our societies, but it wasn't at all like any past economic boom/bust cycle. For the past 14 years the global economy has pottered on in a strangely muffled state. We still had news and events and scares and surprises, but throughout it all the economy seemed smoothed. Zero interest rate policy would do that for you. Money was cheap and it flowed to all sorts of places in the great scrounge for yield. It meant that virtually anyone could borrow some cash at a generous rate to paper over some shortfalls between income and expenses. There wasn't much impetus for tough decisions about spending. Those days are over, both for people and for businesses. After many years of being little more than a bogeyman, recession is now looming large over the world. Governments, companies and households will have some hard decisions to make. Companies must make it very difficult for their customers to switch to a cheaper rival or dispense with their products all together. Otherwise they will be toast. We have been reviewing our investments using this litmus test: are they the best value option? And are they making solid profit margins that allow them the flexibility to reinvest in themselves and ride out difficult times? We want to own resilient businesses as we enter what is shaping up to be a bumpy 2023.

Covid Nero. China, the 21st century's riddle, wrapped up in a mystery, inside an enigma, is playing up to its part. After three solid years of a strict zero-Covid policy, Chinese citizens had had enough. An unusual rash of large protests erupted across the country, complaining about harsh lockdowns keeping millions shut up at home (or in factories) to avoid Covid from spreading. The unrest tarnished President Xi Jinping's afterglow of getting bestowed an unprecedented third term at the party conference late last year. Whether bowing to popular opinion, economic concerns, or both, in December the Chinese leadership made a sharp about-turn and completely dismantled its stringent testing regime and social restrictions. Cases soared. We were surprised by just how swiftly China reopened – it went from zero to 60 quicker than a Tesla. The reawakening of one of the world's largest markets after several years' curtailment will have big implications for the global economy, although this too will be an enigma for some months yet. Will it spark an increase in demand for petrol, gas and other natural resources? If so, it could complicate the descent of inflation. It will definitely boost Chinese restaurants, cafes, theatres and other services that have been battered by stop-start lockdowns. If our own re-opening is anything to go by, retailers could also benefit, particularly strong brands like Nike, Estée Lauder and LVMH. After a long stretch of isolation, people enjoy letting loose. A pick-up in Chinese economic growth could be a blessing for all of us, as it would counteract tough times in the West and perhaps even reduce jingoism and simmering tensions in the South China Sea. As long as inflation remains anchored, that is.

Portfolio activity

Key purchases/additions	Key sales/trims
Commonwealth Bank of Australia 3% Senior 2026 (new purchase)	Legal & General All Commodities (sale)
GlaxoSmithKline Capital 3.375% 2027 (new purchase)	Invesco Commodity Composite ETFs (sale)
DBS Bank (new purchase)	Dexcom (Trim)
Apple (addition)	Total (Trim)
UK Treasury 1.5% 2026 (addition)	

Source: Rathbones

With interest rates marching higher all around the world, yields on bonds obviously increased as well over the quarter. For many years bonds were often, bluntly, return-free risks. Yields were so low that there was no real return accruing to the holder. There was precious little cash flowing back to bondholders in coupons and there was a lot of risk of capital loss if interest rates rose from record lows (which came to fruition), particularly for bonds that matured in five, 10, 20 years plus. This is no longer the case. We picked up the **UK Treasury 1.5% 2026**, and the **US Treasury 1.875% 2032**.

We bought quite a few corporate bonds as well, all in sterling, including high-quality listed lenders **Commonwealth Bank of Australia 3% Senior 2026**, **National Australia Bank 3% Senior 2026**, and **Clydesdale Bank 4.625% 2026**. We also bought some riskier debts issued by companies in defensive industries, such as pharma giant **GlaxoSmithKline Capital 3.375% 2027**, gas network **Centrica 4.375% 2029** and tobacco manufacturer **BAT International Finance 2.25% 2028**. These bonds were all priced below their face value that will be paid back at maturity, so there should be a capital uplift over the coming years as long as their businesses don't disintegrate.

The belief that a US Federal Reserve (Fed) pause is just over the rainbow has weakened the dollar considerably as many investors have moved their money out of the US and into riskier assets and nations. From its peak in late September to the end of the year, the greenback sunk 9.3% relative to a basket of major currencies. Against the pound specifically, the dollar dropped about 11% over the same period. This dollar weakness helped emerging market stocks rally significantly into the end of the year. Europe had a stonking run as well and even the UK recovered. This is, effectively, a 'risk-on' trade. It came at a strange time, in our view, and we haven't leapt onto this bandwagon. There was also a marked buying of gold – typically a 'risk-off' trade. About 10% higher over the quarter, the gold price continued rising in early January to $1,870, approaching its peak of $2,050 from March 2022. Many investors – including ourselves – see it as a useful bit of protection in case the wheels completely come off the global economy, particularly now that rate hikes may be coming to an end.

We rebalanced our stocks over the quarter, adding to existing holdings whose prices have fallen to realign them with the proportion of the portfolio we want them to represent. We also bought a new company, Singapore-based lender **DBS Bank**. Set up in 1968 as an arm's length development bank by the government of Singapore, it has grown into a solid and responsible commercial bank and lender. It operates across Southeast Asia, albeit with a heavy focus on Singapore and Hong Kong. It also has a presence in the UK, US, Australia and United Arab Emirates. It is growing modestly yet dependably, with a solid return on equity that should have a tailwind if global interest rates continue to rise.

We completely sold our **Legal & General All Commodities** and **Invesco Commodity Composite** ETFs because we believe that global inflation has now peaked and is likely to fade (over the next year or two).

We continued to build our holdings in US tech giant **Apple** and added to heart valve maker **Edwards Lifesciences**.

We added to our **Put Spread** structured product, which protects us against the first 25% of any fall in the US stock market. These options are effectively an insurance policy on our US stock portfolio. We pay an upfront premium in return for the right to 'sell' a given value of the S&P 500 Index at a pre-agreed level.

Spotlight

In this quarter, the spotlight is on our **Ulta Beauty** and **Assa Abloy**.

ULTA BEAUTY

ASSA ABLOY

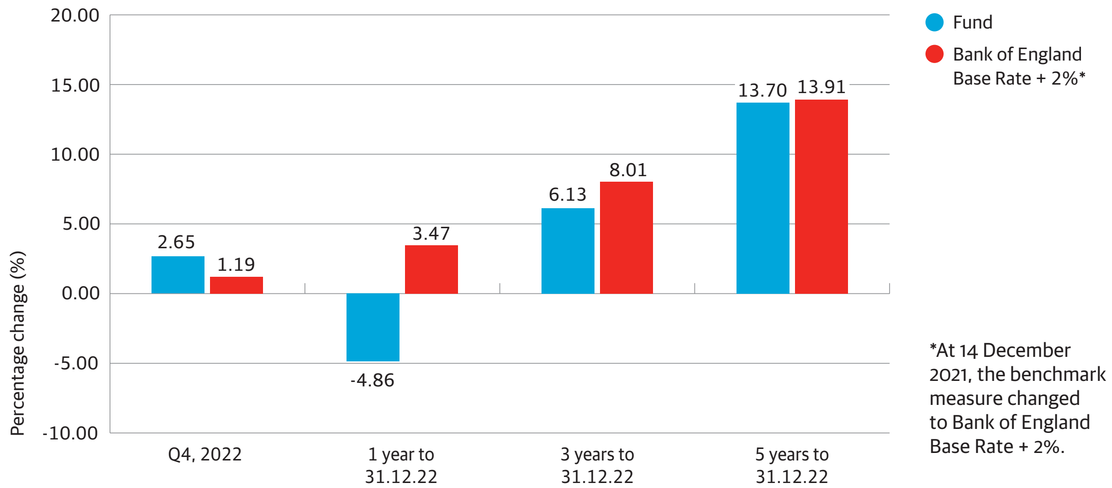
Ulta Beauty

- Ulta has both a cosmetics and beauty offering so provide a one-stop shop of sorts
- Number one speciality store in the US with offerings for both mass market and prestige – they are the only national player in the US to have both
- Dramatically increasing store footprint across the US, including a partnership with large US department store chain, Target
- Majority of purchases made via successful loyalty programme, which provides exceptionally valuable information to the brands on customer behaviour
- Ulta also have a great deal of focus on innovation, particularly with younger customers in mind – they look to technologies such as Augmented Reality (AR) to help customers find colour matches and try on the products, and Artificial Intelligence (AI)-driven personalisation of the shopping experience
- Finally, the beauty industry is historically more resilient through the economic cycle and Ulta is a key player in this space

Assa Abloy

- Assa Abloy is a global locks and access solutions business which is number one or two across most of their divisions – Yale is an Assa Abloy brand with which many of you will be familiar
- Security spend globally is growing and Assa Abloy is well placed to benefit from this
- More than half of sales are now via the electromechanical sector where Assa Abloy has leading positions – check your hotel key next time you check in somewhere, you are likely to find the Assa Abloy logo on it somewhere
- Focus on the huge potential in virtual keys and shift from traditional locks to smart locks – this market is expected to triple over the coming decade or so
- They continue to partner with market leaders in other areas – an example of this is their collaboration with LG to bring their OLED displays and Assa's expertise in automatic sliding doors together to offer high-definition images and video for marketing and ads on those sliding doors
- Their continued innovation in residential locks holds some exciting potential with their new Yale Assure Lock 2 in the US and Canada featuring a much more compact and sleeker design and enables customers to dispense with keys and use the Yale Access app to lock and unlock from anywhere at any time – you can also give access to friends and family and get notifications of lock activity on your phone

Fund performance



*At 14 December 2021, the benchmark measure changed to Bank of England Base Rate + 2%.

Net of expenses and tax. Net income reinvested. Data source: FE fundinfo

Discrete annual performance					
Year to:	**End Dec 2018**	**End Dec 2019**	**End Dec 2020**	**End Dec 2021**	**End Dec 2022**
Fund	-2.09%	+9.42%	+4.51%	+6.74%	-4.86%
Bank of England Base Rate + 2%	+2.63%	+2.76%	+2.23%	+2.11%	+3.47%

Our benchmarks are calculated on the rate of change of the CPI index, over different time periods (e.g. if we were calculating year to date figures in January 2021, we would look at the percentage change from December 2020 to the end of January 2021). So we take CPI to the current value, and add on 3%, prorated over a year (roughly 0.25% per month). If the CPI Index benchmark were to fall, more than the amount pro-rata, the benchmark year-to-date will be negative, even though inflation as reported by the media (calculated specifically as a 12M rate of change), remains positive.

The performance shown is for our 0.5% (L-class) annual management charge share class. Some of our existing clients may be invested in a more expensive share class, the performance for which will therefore be lower. Factsheets for all share classes showing our charges and respective performance are available on request, free of charge or on our website rathbonefunds.com.

Past performance does not predict future returns. For further information on risks and costs, please read the Prospectus and Key Investor Information Documents (KIIDs), available for free at rathbonefunds.com. 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.

The investment objective of the sub-fund changed on 25 March 2019 due to the sub-fund ceasing to be part of a master feeder arrangement. Therefore, performance in the chart shown prior to this date was achieved under differing circumstances.

Top performers (%)		
Holding	**Performance**	**Contribution**
Kion	+33.14	+0.09
Nike	+31.01	+0.13
Dexcom	+30.63	+0.17
Siemens	+29.64	+0.13
Total	+25.03	+0.15

Bottom performers (%)		
Holding	**Performance**	**Contribution**
Amazon	-30.39	-0.20
Edwards Lifesciences	-15.24	-0.08
Alphabet	-14.04	-0.08
First Republic Bank of San Francisco	-13.17	-0.05
Vodafone	-12.74	-0.05

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.
Performance (table above only): Gross of charges.

Source: Rathbones

Fund performance (continued)

The final quarter of the tumultuous year that was 2022 was a more positive one for markets with major equity indices rising and bond yields falling (prices rising). The weakening of inflation data in the US gave investors increasing levels of comfort that we have seen the peak in inflation and perhaps the US Federal Reserve (Fed) feel closer to the point at which their job is done when it comes to hiking rates. In this backdrop it will come as no surprise that equities were the chief contributor to portfolio returns over the quarter, with US equities having the largest positive impact. In particular, names like **Dexcom**, who beat earnings estimates in October and slightly raised their guidance for the full year, along with initiating the much-anticipated rollout of their G7 device in the UK, Ireland, Germany, Austria and Hong Kong. **Nike** also had a stellar quarter after a year where they were impacted by a range of factors, not least continued concerns over Chinese growth given the zero-Covid policy and economic weakness there. The company reported a sizable beat to earnings estimates in the quarter, with very strong growth in the US, Asia Pacific, and Latin America, along with a raise to their full year revenue outlook.

The first three quarters of 2022 was a period of significant US dollar strength, which meant that our hedging of the US dollar back to sterling was a relative headwind. However, that tide turned meaningfully in Q4 as we saw the exchange rate move from around 1.12 at the end of Q3 to around 1.21 at the end of the year. This resulted in our currency hedging materially protecting the gains from our US assets given the 8% fall in the value of the US dollar against sterling. Of course, this was not the whole story as the bottom of the currency pairing was around 1.03 in Asia overnight trading at the end of September, and the recovery did reach 1.24 before tailing off a touch into the Christmas and new year period. This is just over a 20% move in sterling bottom-to-top over one quarter. Having the hedging in place certainly allowed us much better participation in the recovery in US equities in Q4.

Two assets which were detractors for the quarter were assets which have been one of the greatest supports through the course of the entire year. Our **US rates volatility notes** were two key detractors in the portfolio for the quarter given the calming of US rates and the return of some positivity to investors. Clearly the reduction of pressure on the Fed has resulted in the rates market being able to find an element of equilibrium but also the bond market feels like it has largely moved past the inflation story now and is looking toward any looming economic weakness and what this might mean for rates. This environment would likely see a continued reduction in rates volatility, but the position is still helpful to balance risk in the portfolio and provide us with some support in the event of any upward surprise in inflation or Fed policy. Given the moves in markets and narrative an upwards surprise from here could have a large market impact as such retaining some protection against is vital.

Asset allocation ranges

Liquidity	Equity-type risk	Diversifiers
10% to 50%	20% to 60%	10% to 60%

Asset allocation change and strategy

There were no significant changes during the quarter.

Asset allocation split	30.09.22	31.12.22	% Change	12 month change
Liquid assets	32.66%	40.00%	7.34%	-1.91%
Equity-type risk	43.17%	45.96%	2.79%	5.87%
Diversifiers	24.17%	14.04%	-10.13%	-3.96%
	100.00%	100.00%		

Asset class split	30.09.22	31.12.22	% Change	12 month change
Equities	31.63%	33.11%	1.48%	-0.64%
Index-linked bonds	0.00%	0.00%	0.00%	-7.10%
Conventional government bonds	28.70%	25.38%	-3.32%	0.98%
Corporate bonds	14.44%	18.03%	3.59%	8.62%
Emerging market debt	0.00%	0.00%	0.00%	0.00%
Private equity	0.43%	0.44%	0.01%	-0.06%
Alternative investment strategies	10.57%	9.22%	-1.35%	2.92%
Property	0.00%	0.00%	0.00%	0.00%
Commodities	7.63%	4.83%	-2.80%	-0.79%
Cash	6.60%	8.99%	2.39%	-3.93%
	100.00%	100.00%		

The fund is actively managed.

For more information on our liquidity, equity-type risk and diversifiers (LED) risk framework, please consult our investor brochure.

The investment objective of the sub-fund changed on 25 March 2019 due to the sub-fund ceasing to be part of a master feeder arrangement. Therefore, asset allocation shown prior to this date was prevalent under differing circumstances.

Investment outlook

As 2023 dawns, most people expect another extremely tough year. While falling, inflation is still very high, squeezing everyone's living standards. The war between Russia and Ukraine grinds on, complicating the supply of everything from oil and gas to food and metals. While the outlook is grim, we should remember the lesson of 2022: no one knows what tomorrow will bring. And when everyone is expecting the worst, there's a greater chance that things won't be as bad as they feared.

A year ago, the prevailing belief was that the global economy would disintegrate if American interest rates rose above 2% or so. The US benchmark rate should be 5% by early February and while economies are slowing, the world is far from economic Armageddon. The UK and the Eurozone are likely already in the midst of a downturn because they are at the epicentre of the energy crisis caused by the Ukraine war. While the European recession won't necessarily be very deep, it is expected to be prolonged – especially in the UK, where it may even last all year. The US is still holding up, but it seems destined to slow over the coming 18 months as the economic handbrake that is all those rate increases starts to be felt. Exactly how much is the big question. Post-pandemic economic data is hard to decipher because of the stark demand and supply changes in all sorts of markets from labour to cars and raw materials. We will be watching our investments carefully as the year progresses.

Rathbone Unit Trust Management Limited
8 Finsbury Circus, London EC2M 7AZ

International information line
+44 (0)20 7399 0800
international@rathbones.com
rathbonefunds.com

Investment manager:
Rathbone Unit Trust Management Limited
Authorised and regulated by the Financial Conduct Authority

A member of the Investment Association

A member of the Rathbones Group. Registered No. 02376568

Management company:
FundRock Management Company S.A.
Authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier

Rathbones
Look forward

8179.01.23