RATHBONES

RATHBONE GREENBANK MULTI-ASSET PORTFOLIOS

TOTAL RETURN FUND

Quarterly investment update
April to end June 2024

CONTENTS

HOT TOPICS

'TOP-DOWN' (MARKET AND MACROECONOMIC)

LABOUR LANDSLIDE

The UK got a new government soon after the end of the quarter. While the opinion polls correctly forecast a Labour landslide, they hadn't counted on the winners' vote-share being just 34% – the lowest for a winning party since the Great War. Keir Starmer's Labour took 3 million fewer votes than his predecessor, Jeremy Corbyn, did back in 2019. A government toting such a huge majority, won with a small proportion of the popular vote, and on very low turnout does create a strange paradox. A few months back we discussed the likelihood of a Labour government and the risks and opportunities that it might bring.

34%

The vote-share won by Labour – the lowest in a more than a century.

It will be a tough road for the new government, given taxes are high relative to the UK's history (yet low relative to other major advanced nations), the nation's debt is as large as the economy and interest rates are higher than they've been since the Global Financial Crisis. With economic growth scarce and finances tight, Labour will have to step carefully to avoid spooking the bond market or harming public services.

New ideas are welcome though. The government appears focused on spurring economic growth, with aims to boost investment and reform the country's byzantine planning laws. If successful, improvements here should mean more efficient public services, more profitable businesses, higher living standards and the ability to reduce both debt and the tax burden. But it remains an 'if' at this stage.

Looking out to the rest of the year, with inflation falling back to target and broadening indications that private sector wage growth will start to ease, the opportunity is there for the Bank of England to cut interest rates. If so, that would release some of the financial strain on heavily indebted households, businesses and the government. It should also boost the value of bonds as prevailing yields drop.

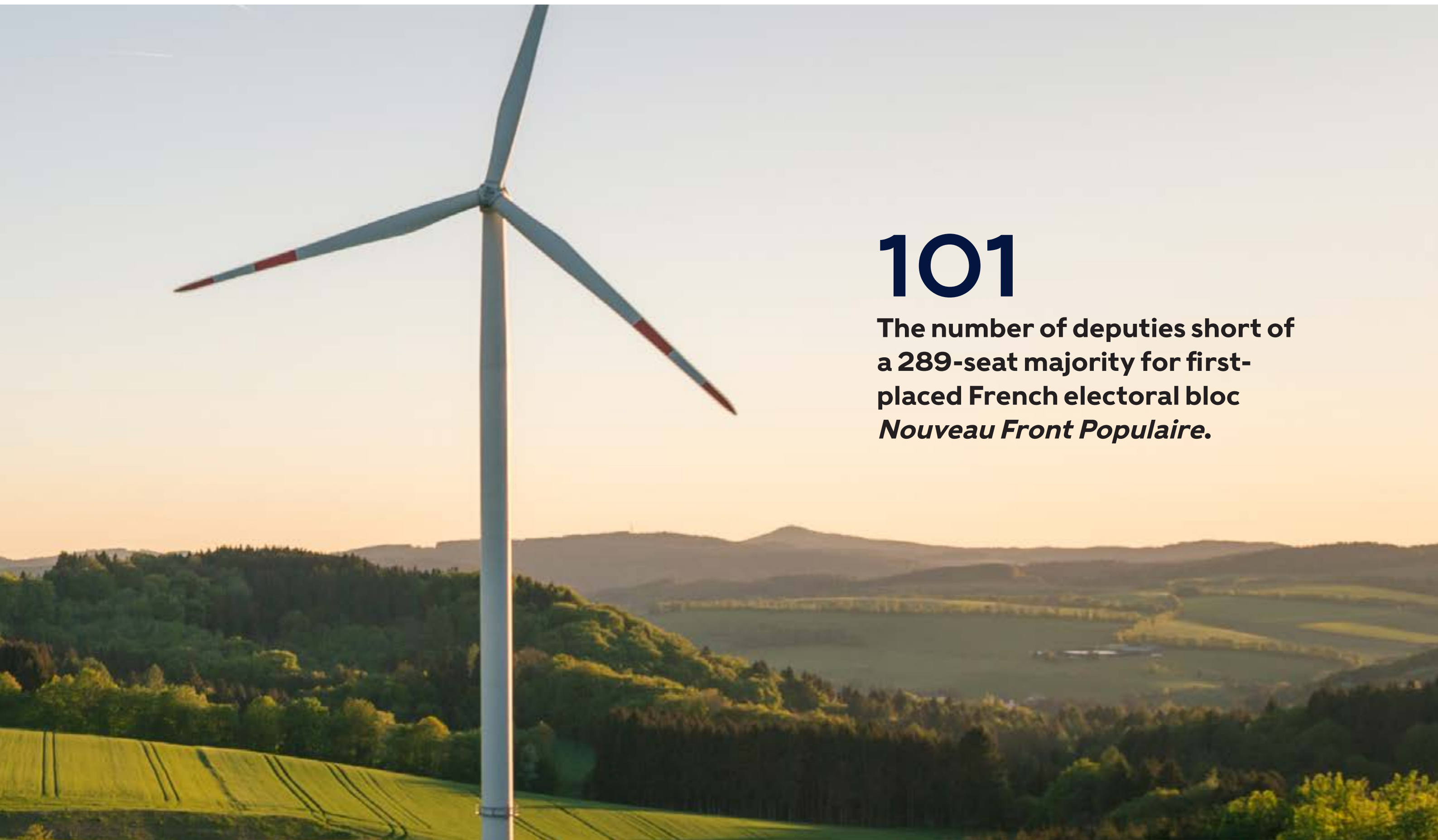
LES MISÉRABLES

France wasn't so lucky: its election ended with a hung parliament. After a first-round landslide for the right-wing *Rassemblement National* (RN), opinion polls had forecast another strong showing in the final round of parliamentary elections. Instead, the strong chance of an RN majority came to naught, with the party winning the third-largest number of seats behind the left-wing alliance *Nouveau Front Populaire* (NFP) and French President Emmanuel Macron's *Ensemble* centrist coalition.

With no party close to the 289 required for a majority (the first-placed NFP are still about 100 votes short), a coalition would be needed. Yet the parties are far apart from the centre, let alone each other, so a workable combination seems far-fetched. The parliament may have to pass laws on a case-by-case basis, with the current Prime Minister presiding as a sort of caretaker. Under France's constitution, another election can't be called for another year. Macron could also propose a compromise figurehead, acceptable to all sides, who would appoint a government of technocrats.

Investors in French assets seem relatively happy with gridlock as an outcome, however. Parties of both the right and the left are heavy on expensive promises that have scared bondholders and hurt the share prices of French companies, especially banks. That may be a temporary reprieve, however, as tectonic political moves are becoming more frequent. More extreme politics – both to the right and the left – around the Continent could make it harder for fiscally responsible centrist policies to be enacted. That may create more risks around the Eurozone as populations keep getting older and government spending remains high.

We've recently bought government bonds issued by countries that are unambiguously improving their financial situation, such as Portugal and Germany. We were careful in buying these bonds – we fixed the currency exchange rate from euros to pounds ahead of time ('hedged') because we actually get a yield boost to do so. We thought that was prudent given the political and fiscal issues among some members that could cause a wobble in the euro, which would hurt returns for the unhedged investor.



INVESTORS WAITING IMPATIENTLY FOR THE FED

Turbulence in global bond markets, especially in April and May, dented our performance over the quarter. Bond markets are hyper-touchy as economic information and central bankers' chat flows through investors' minds and into prices. Sharp rises in bond yields mean sharp falls in their prices, albeit these are only short-term effects and we've tended to use the opportunity to add to our holdings. Yields have been just as likely to drop back (sending prices higher) as they have to rise in recent months. While bond markets have been unsettled, we believe that interest rates in the UK and US will soon be falling – as they already are in Europe.

Our equities have also delivered a disappointing performance because of a mixture of changes in market favour and a few stock-specific disappointments. Computer hardware businesses – like those involved in manufacturing chips or chip-making machines – have been doing well, yet software developers have generally struggled.

Across many different regions and industries, companies are starting to warn of slowing household demand as higher borrowing costs and a marked increase in the cost-of-living crimp many. It's tough to judge how much of this is due to a weakening economy and how much is simply an excuse from company managers to paper over their own mistakes. Time will tell. It certainly does seem to us that consumer strength is dwindling around the world. Voters are unhappy and getting restive, while economic data seems to be softening.

Part of the difficulty in determining what's happening is that the population is split more dramatically than ever between the 'haves' and the 'have nots'. One poll sums up the times: it found that 56% of Americans believe the US is in recession (it's not) and 49% think the S&P 500 US stock market index is down year to date (it's up 15%). House prices and rents are sky-high, benefiting homeowners and landlords. The stock market has shrugged off rate hikes and continued rising, helping the wealthiest. The lower-paid have received wage increases above inflation, yet it obviously doesn't feel like it for most. Meanwhile, US households have something like $20 trillion in cash savings that should be earning somewhere between 3% and 5% either at the bank or in money market funds. Again, that will be flowing to the wealthiest sections of society.

If a cooler economy helps bring down inflation (CPI fell back to 3% in June) and allows the US Federal Reserve to cut interest rates, that may go some way toward easing the strain both on the heavily indebted US government debt and indebted Americans.

56% of Americans believe the US is in recession (it's not). The mistaken assumption is from a Harris Poll commissioned by the Guardian Newspaper.

PORTFOLIO ACTIVITY

Key purchases/additions	Key sales/trims
Portugal 1.65% 07/16/2032 (purchase)	EIB 0.75% 09/23/2030 (sale)
UK Gilt 1.125% 01/31/2039 (addition)	UK I/L Gilt 0.75% 03/22/2034 (trim)
German Bund 0.25% 02/15/2027 (purchase)	Nvidia (trim)
EIB 3.75% 02/14/2033 (addition)	Haleon (trim)
Argentum 5.75% 08/15/2050 (purchase)	TSMC (trim)

Source: Rathbones

Since last summer, we've believed interest rates on both sides of the Atlantic had peaked and that the next moves would be down. While market expectations rolled up and down with the release of each piece of economic data, we have long thought that rates wouldn't fall until the second half of the year.

Because of this, we've been buying bonds when yields spike (prices have fallen), yet not really selling in great amounts when the yield falls back again (and prices rise). This has meant we've continued steadily building our exposure to bonds, both in the UK and abroad. And at the same time, we've been adjusting our portfolio so that we hold more longer-dated bonds whose values are more sensitive to changes in prevailing interest rates. These included the Australian state New South Wales Treasury 2.5% 2032, European Investment Bank 3.75% 2033 and UK Treasury 0.875% 2033.

This thinking also led us to buy German Government 0.25% 2027 and Portuguese Government 1.65% 2032 bonds. Because economic growth and inflation were lower on this side of the Atlantic and we felt that rates would fall sooner than in the US, pushing up European bond prices. The European Central Bank duly cut rates by 25 basis points to 4.25% in early June. Added to this, at the moment you are paid about 1.3% to 'hedge' the euro back to sterling (fix the euro-sterling exchange rate into the future). This means these investments are unaffected by fluctuations in the euro/sterling exchange rate, and we're paid to eliminate this risk.

While the German bonds are part of our lower-risk 'Liquidity' bucket of assets, we consider Portuguese government bonds 'Equity-type', or higher risk assets (for more info on our LED risk framework, click here). Portugal is improving its fiscal situation — somewhat bucking the general European trend — so we think the values of these bonds should appreciate over the coming years. In the meantime, they give us an attractive income similar to that of the UK and US.

With stock markets hitting all-time highs in the quarter and risks still abounding, we bought two new Put Options. These act like an insurance policy on our US equity holdings; and like an insurance policy we have to make a premium payment for them. To reduce the cost, we made one contingent on the 10-year US Secured Overnight Financing Rate (known as 'SOFR' this is the replacement for LIBOR) being above a certain level at maturity. Both put options are 'resettable' which means that the market level where the protection kicks in ratchets up each month if the stock market continues to rise.

We added to various stocks over the period, including payments giant Mastercard, household brands conglomerate Unilever, e-commerce platform Shopify, American distributor of recycled auto parts LKQ and animal pharmaceuticals company Zoetis.

We bought California-based customer relationship management (CRM) business Salesforce in April. The pandemic and remote working sparked a wave of business investment in better technology. And yet, there are so many businesses that haven't taken the plunge. In today's world, customers demand so much more from businesses they interact with. Everything should be convenient, smooth and without fuss. Hitting 21st century expectations without 21st century tools is extremely hard. If you disappoint, the internet makes it so much easier for customers to search and move to a rival. We've long admired Salesforce, which is arguably the best-in-class in the CRM world. And a quality CRM — a system that stores existing and prospective clients' details and interactions with them, and helps boost sales and customer satisfaction — is probably the lowest-hanging fruit that a business could pick when it comes to digitising. Growing its revenue at about 20% each year and throwing off cash like an ATM, Salesforce is a quality company. However, at roughly 65 times expected profits, it was just too expensive for us to buy back in 2020 and 2021. Over the past couple of years, Salesforce has become much cheaper, falling steadily to roughly 25x to 30x. This is a much more attractive entry-point for us, so we have bought into the company.

Another addition to the fund was GE Healthcare Technologies. Spun out of the General Electric super-conglomerate in January 2023, GE Healthcare focuses on imaging machines, mostly for diagnostics. Think CT scanners, MRI machines, ultrasound equipment and X-rays. With populations getting older, the strain on healthcare services is only set to intensify. We believe greater investment in technology is the only way to increase efficiency and keep societies healthy while avoiding ever-increasing costs. We were attracted to GE because, while it already has a strong portfolio of machines and technologies, it spends more than $1 billion a year in research and development to refine its existing products and design new ones.

SPOTLIGHT

IN THIS QUARTER, THE SPOTLIGHT IS ON OUR DSM-FIRMENICH AND BOSTON SCIENTIFIC HOLDINGS.

DSM-FIRMENICH

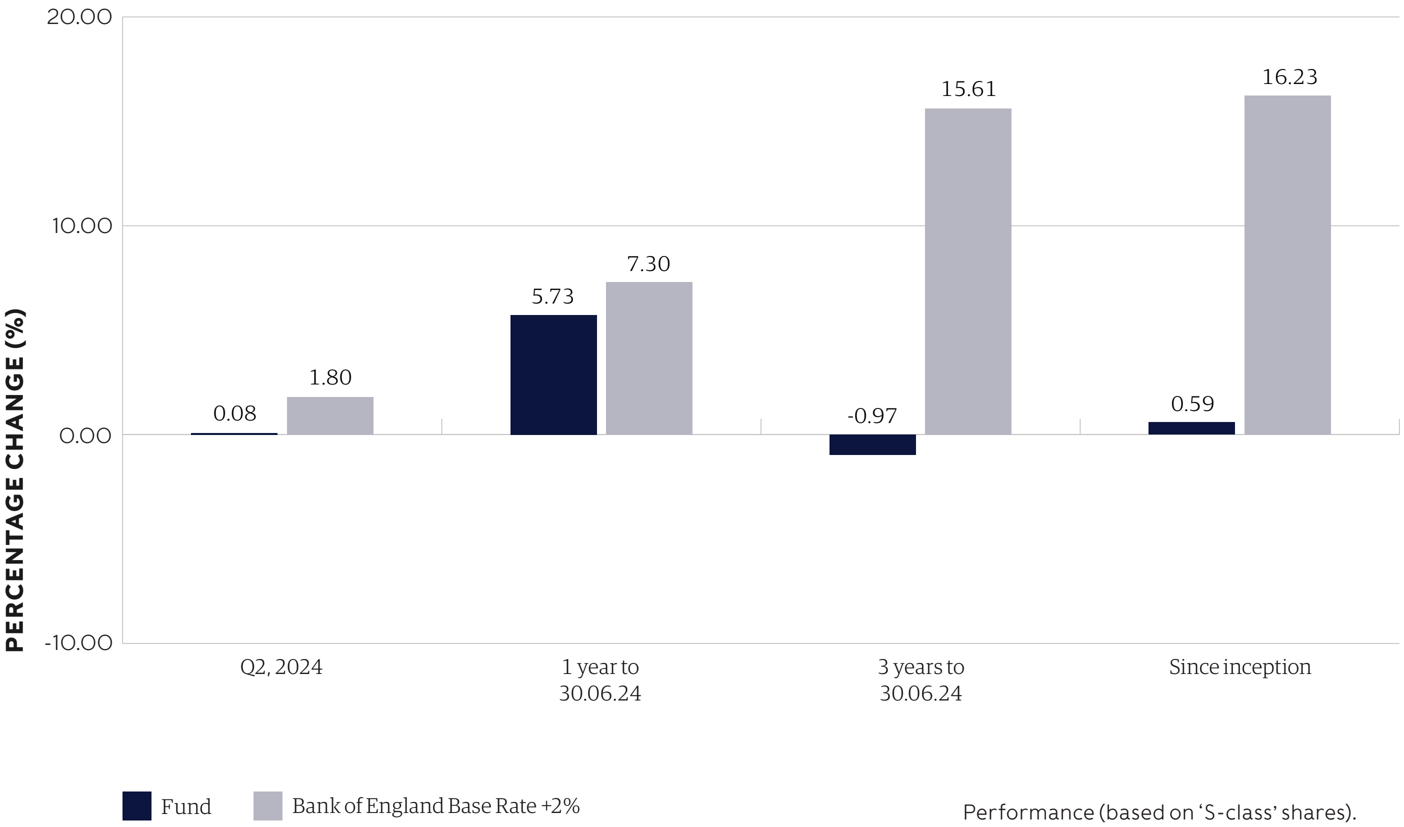
- DSM merged with Firmenich in 2023 to become a global leader in perfumery & beauty, as well as health and nutrition for people and animals
- Their taste, texture and health segment is addressing one of society's biggest challenges – how to deliver nutritious, healthier and sustainable food and beverage solutions
- The diversification of their portfolio, along with the strong structural tailwinds behind them, should ensure strong market growth and sales
- Global supplier of dietary products, such as vitamins and omegas which improves nutrition and health in people and animals
- DSM-Firmenich has a unique pipeline of products that help improve the environment, including Clean Cow, an animal feed additive that cuts methane emissions from livestock by 30%
- Deep rooted commitment to bring affordable, available and aspirational nutritious foods to middle-and low-income segments of society through long-standing partnerships with organisations such as the United Nations World Food Programme (WFP)

BOSTON SCIENTIFIC

- Diversified medical devices company with solutions across cardiovascular, respiratory, digestive, oncological, neurological, and urological diseases and conditions
- The cardiovascular product portfolio includes coronary stents, balloon catheters, and ultrasound imaging catheters, which in all three markets they have a leading position
- With the need for healthcare increasing given the aging population, medtech products are going to be a key contributor to how we address this across the globe
- Leading 'Watchman' device helps to stop blood clots forming and reduces the risk of a stroke in patients
- Its single use endoscopes are used to diagnose and treat a range of conditions in a less invasive manner, reducing the rate of infection in patients and subsequent complications
- Boston's health equity strategy aims to close gaps in healthcare by raising awareness about racial and gender biases that contribute to disparities in heart and vascular care, and also to advocate for inclusive clinical trial representation

FUND PERFORMANCE

RATHBONE GREENBANK TOTAL RETURN FUND — QUARTER 2 2024



Performance (based on 'S-class' shares).
Net of expenses and tax.
Net income reinvested.
Data source: FE fundinfo

12-month rolling performance					
Year to:	**End Jun 2024**	**End Jun 2023**	**End Jun 2022**	**End Jun 2021**	**End Jun 2020**
Fund	+5.73%	-0.66%	-5.72%	–	–
Bank of England Base Rate +2%	+7.30%	+5.22%	+2.41%	+2.10%	+2.59%
Annual calendar performance					
Calendar year	**2023**	**2022**	**2021**	**2020**	**2019**
Fund	+4.85%	-9.67%	–	–	–
Bank of England Base Rate +2%	+6.73%	+3.47%	+2.11%	+2.23%	+2.76%

Price performance based upon bid to bid prior to 21 January 2019 and single price (mid) thereafter.
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**
Nvidia	+34.29	+0.23
TSMC	+27.63	+0.15
Badger Meter	+15.26	+0.05
Halma	+14.27	+0.04
GCP Infrastructure	+13.42	+0.08

Bottom performers (%)		
Holding	**Performance**	**Contribution**
Sartorius	-42.27	-0.19
Tomra	-22.44	-0.06
Eurofins Scientific	-21.86	-0.09
Dexcom	-18.2	-0.08
SIG	-15.47	-0.06

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

Yields seesawed often over the second quarter of the year. In the UK the fulcrum for the 10-year government bond yield was roughly 4.2%, getting as high as 4.4% and as low as 4.1%. Because yields rose slightly over the quarter, our bonds delivered slightly negative performance. We still believe that with UK inflation back at the 2% target and signs of a weakening economy, we are creeping closer to Bank of England interest rate cuts. When we reach this point the greater 'duration', or exposure to changes in interest rates, that we have built up over the past couple of years should provide some meaningful positive returns. Added to this, our bond holdings should act as ballast if a weakening economy triggers weakness in stock markets.

US government bonds bounced around as well, which meant our structured products that make money on this volatility did very well. (Structured products are contracts with investment banks that deliver set returns on certain scenarios.) We have held these structured products for a while now, seeking protection from exactly this environment.

US high-end computer chip designer Nvidia was our greatest single-stock contributor to performance. The stock continues to rally strongly after another strong earnings report, as demand for chips to power AI surges. Other chip-related stocks we hold, such as chip-maker Taiwan Semiconductor Manufacturing Company and ASML, the maker of the machines that make the chips, were also strong contributors to our performance.

Investors had little patience for companies that didn't hit expectations last quarter. Slight misses on earnings or favoured metrics led to some disproportionate (in our view) sell-offs. The worst hit of our holdings were European laboratory equipment supplier Sartorius and lab testing business Eurofins Scientific, which was hit by accusations of accounting irregularities from a 'short-seller' (an investor who makes money by betting that share prices will fall). Eurofins' management swiftly challenged the allegations and we accept their explanations.

ASSET ALLOCATION CHANGES

THERE WERE NO SIGNIFICANT CHANGES DURING THE QUARTER.

Asset allocation split	31.03.24	30.06.24	% Change	12 month change
Liquidity (10%-50%)	50.3%	46.1%	-4.1%	-8.4%
Equity-type risk (20%-60%)	39.6%	43.9%	4.3%	7.1%
Diversifiers (0%-50%)	10.1%	10.0%	-0.1%	1.3%

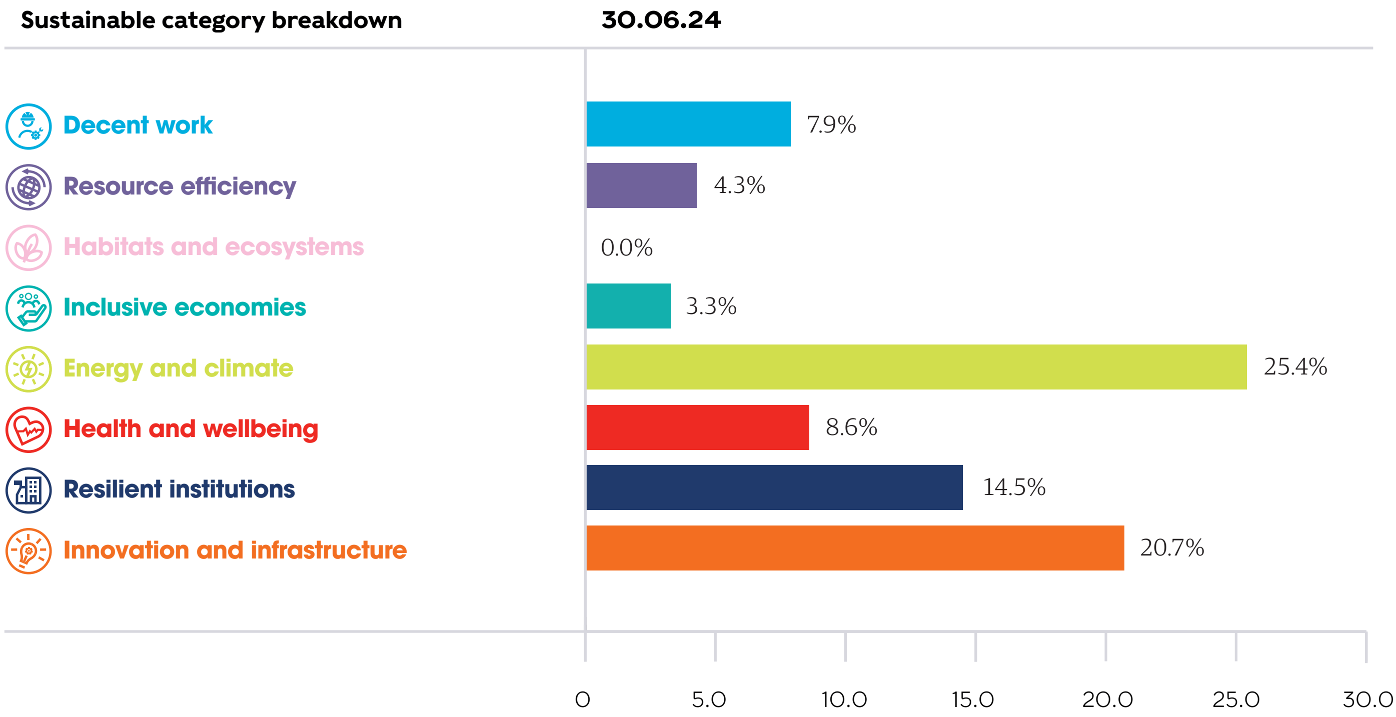
For more information on our liquidity, equity-type risk and diversifiers (LED) risk framework, please consult our investor brochure.

Asset class split	31.03.24	30.06.24	% Change	12 month change
Equities	32.5%	33.8%	1.3%	4.3%
UK	7.8%	8.1%	0.3%	2.8%
US	17.7%	18.7%	1.1%	2.5%
Europe	5.1%	4.9%	-0.2%	-1.2%
Japan	0.3%	0.3%	0.0%	-0.1%
Asia ex-Japan	1.6%	1.7%	0.1%	0.3%
Emerging Markets	0.0%	0.0%	0.0%	0.0%
Global	0.0%	0.0%	0.0%	0.0%
Index-linked bonds	3.1%	3.0%	-0.1%	0.8%
Conventional government bonds	20.2%	25.5%	5.2%	5.2%
Corporate bonds	21.0%	21.7%	0.7%	-3.3%
Emerging market debt	0.0%	0.0%	0.0%	0.0%
Private equity	0.0%	0.0%	0.0%	0.0%
Alternative investment strategies	10.1%	10.0%	-0.1%	1.3%
Property	0.0%	0.0%	0.0%	0.0%
Infrastructure	0.6%	0.7%	0.1%	0.7%
Commodities	0.0%	0.0%	0.0%	0.0%
Cash	12.5%	5.4%	-7.1%	-8.9%

SUSTAINABLE CATEGORY BREAKDOWN

GREENBANK HAS MAPPED THE UN SUSTAINABLE DEVELOPMENT GOALS (SDGS) TO A SET OF EIGHT SUSTAINABLE DEVELOPMENT CATEGORIES.

These categories ultimately align with the same ambitions as the SDGs but focus on the areas most relevant to companies and investors. Assets in the fund must align to at least one of these categories and the current breakdown of these alignment is shown below.



The 'resilient institutions' category includes government bonds. For more information on our sustainability criteria, please consult our sustainability process brochure.

INVESTMENT OUTLOOK

DESPITE A TOUGH QUARTER, WE'RE CAUTIOUSLY OPTIMISTIC ABOUT THE SECOND HALF OF THE YEAR.

In keeping with our belief that global interest rates had peaked, we have steadily increased our bonds and interest-rate-sensitive stocks to benefit from the eventual fall in rates. We've waited patiently for the tide to change and at times it's felt a bit like the water was lapping against our throats.

Over the second quarter, an unexpected resurgence in US inflation, a string of contradictory labour market data and growing government deficits and borrowing caused a lot of nervousness in the US Treasury market. The benchmark US 10-year government bond yield leapt from about 4.2% to 4.7% in April. At the time of writing, the yield had fallen back to broadly where it started, but the path was punctuated with lurching spikes upward.

Yet European central banks have already started reducing borrowing costs and recent inflation data makes it look like the UK and US won't be far behind. At the time of writing, the US announced inflation of 3% for June. That slight beat set off one of the biggest one-day jumps in US mid-caps since 1979. At the same time, the mega-cap tech giants slumped, suggesting a huge 'rotation' whereby investors sold the large-cap darlings and bought the long unloved stocks beneath them. In a mad stat, the S&P 500 stock market index was down 0.9% on Thursday 11 June, yet 75% of all the companies in the index went up. That shows what we already know: that the US market has become extremely top heavy and is liable to a shake-out. That's healthy.

Now, while rates should be coming down, we're not headed back to the crazy days of zero-per-cent-interest-rate policy. Rates will likely stay higher than we've all become used to in the past decade. Yet we see that as a good thing that should inject more discipline and correct strange incentives. It will no longer be a no brainer to pile on debt. A dollar in 10 years' time will no longer be just as valuable as a dollar today. That should help money flow to the most profitable and useful areas of the economy, encourage people to be more resourceful and inventive, and reward those who save for a rainy day.

The US market has become extremely top heavy and is liable to a shake-out. That's healthy.

WANT TO HEAR MORE FROM THE TEAM

THE SHARPE END PODCAST A MULTI-ASSET INVESTING PODCAST

The Sharpe End lets you be a fly on the wall for frank and informal conversations the team are having on the desk about recent events and how they impact their funds.

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Call
020 7399 0399

Visit
rathbonesam.com

Email
ram@rathbones.com

Address
Rathbones Asset Management Limited
30 Gresham Street, London EC2V 7QN

@RathbonesPlc

@RathbonesGroup

Rathbones Asset Management

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