



RATHBONES

RATHBONE UK OPPORTUNITIES FUND

QUARTERLY UPDATE SEPTEMBER 2024

The third quarter was certainly eventful. In the UK we voted in a new Labour government, and the Bank of England started cutting interest rates. In the US, the race for the White House opened up with the nomination of Vice-President Kamala Harris as the Democratic candidate, and the US Federal Reserve (Fed) finally began to cut rates too.

The Fed rate cut didn't happen before the much-touted 'Sahm Rule' was triggered in early July. According to the rule, when the three month average of the US unemployment rate rises by 0.5% or more from its 12-month low a US recession is probably on the way. The yen 'carry trade' imploded during everyone's summer holidays, and Chinese equities staged a stunning collapse and rebound.

Is the tide turning for smaller UK companies?

Meanwhile, US equities have continued to hit all-time highs. Remarkable resilience in our eyes. Something that doesn't get nearly as much attention is the performance of UK assets beneath the headline FTSE 100 index. FTSE Small Caps actually beat the S&P over the quarter, while the FTSE 250 came very close. A simple but effective combination of low valuations and rapidly improving macro momentum has helped both professional and individual investors, as well as currency traders, recognise the value on offer in UK assets. Sterling strength is also worth watching, and correlates positively with mid cap outperformance. Thanks to still-attractive valuations and the lack of broad ownership, we think there's lots more to go.

The fund outperformed during the period too, thanks to our small to mid cap bias. FTSE 250 core compounders like **Volution**, **Cranswick**, **AJ Bell** and **JTC** all contributed meaningfully. Volution makes and sells bathroom ventilation (fittingly, its stock ticker is FAN). And it has good exposure to the structural drivers of decarbonisation and the need to improve indoor air quality, particularly in social housing given evidence that good ventilation can combat damp and mould, which recent scandals suggest is a particular problem in this sector. The firm made a great looking acquisition in September, adding to its Australasia business. We like the fact that Volution's business is now fairly evenly split between the UK, Europe and Australasia – this helps to smooth earnings for a company whose product sales can depend on housing cycles. Sports retailer **JD Sports** continued to rally nicely despite softness from Nike, its biggest selling brand. We've been reducing our holding as part of a wider strategy to trim exposure to stocks with large US dollar earnings. Sterling strength so far this year will reduce the value of these international sources of income.

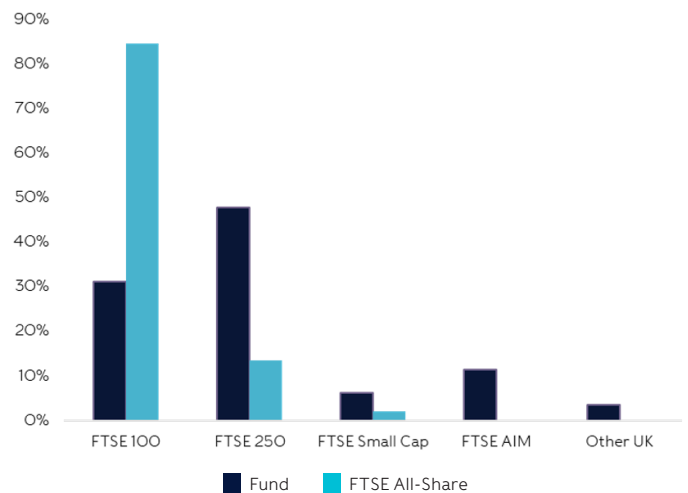
Our tech holdings, like software reseller **Softcat** for example, sold off in sympathy with falls in some US large cap tech companies. Digital transformation consultant **Kainos** was another drag on performance, when its results didn't quite hit the spot. Less work for the big consulting firms has led them to encroach on Kainos' 'sweet spot', helping customers to implement payroll software. This is cyclical and not structural pain, so we expect it to ease. But it's been hard to stomach for shares trading at a chunky multiple. Subsea and renewables equipment rental business **Ashtead Technology** sold off too – the market was probably expecting it to upgrade its earnings estimates following its bumper first half results. We trimmed our stake when the shares were compensating us for tomorrow's returns early.

Raspberry Pi's impressive start

Our newest holding, low cost computer maker **Raspberry Pi**, issued its maiden numbers in late September. We had been a little nervous thanks to cautious comments from adjacent businesses like Broadcom over the summer. But we also felt that its management had a tendency to underpromise and overdeliver. That tendency, which we'd identified ahead of the firm's flotation, showed up when it announced stronger-than-expected first results as a listed company. We've been adding to our position.

While our FTSE All Share benchmark comprises 84% large caps (i.e. FTSE 100 stocks), the fund itself is only 31% large caps.

UK STOCK MARKET CAPITALISATION SPLITS



Source: Rathbones data as at 31 August 2024

Performance review

| | 3 months | 6 months | 1 year | 3 years | 5 years |
|---------------------------------------|----------|----------|--------|---------|---------|
| Rathbone UK Opportunities Fund | 3.1% | 8.0% | 19.2% | -12.9% | 23.9% |
| IA UK All Companies Sector | 2.3% | 6.2% | 14.2% | 9.0% | 25.9% |
| FTSE All-Share Index | 2.3% | 6.1% | 13.4% | 23.9% | 32.2% |

| | 30 Sep 23- 30 Sep 24 | 30 Sep 22- 30 Sep 23 | 30 Sep 21- 30 Sep 22 | 30 Sep 20- 30 Sep 21 | 30 Sep 19- 30 Sep 20 |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| Rathbone UK Opportunities Fund | 19.2% | 13.5% | -35.7% | 37.2% | 3.7% |
| IA UK All Companies Sector | 14.2% | 12.8% | -15.3% | 32.4% | -12.8% |
| FTSE All-Share Index | 13.4% | 13.8% | -4.0% | 27.9% | -16.6% |

Source: FE Analytics; data to 30 Sep, I-class, mid price to mid price.

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

Our investment process and its focus on quality growth stocks leads us towards high return, niche and growing companies in areas like technology, industrials and real estate – and these companies are mainly found beneath the FTSE 100. That process keeps us away from low return, commoditised or commodity-driven parts of the market – these dominate large caps. We don't tend to initiate new positions in stocks that sit within the FTSE 100, but we aren't required to sell when they join the index. We have more cash to deploy than we've had in a while so expect us to tell you about some exciting new holdings next time!

Companies met this month: **Ashtead Tech, Kainos, Beazley**, Baltic Classified, **GB Group**, Auction Technology, Alfa, **Breedon, discoverIE**, Frasers, **Fever-Tree, CRH, Keystone Law, JTC, Advanced Medical Solutions**, Morgan Sindall, **Boku, Ceres Power**.



ALEXANDRA JACKSON
Fund Manager

For more info on our fund, including factsheets, performance and fund manager views, please click [here](#).

If you require further clarification on this commentary, then please contact your adviser or Rathbones at the contact details below.

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 what you originally invested.

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