RATHBONES

RATHBONE UK OPPORTUNITIES FUND

QUARTERLY UPDATE DECEMBER 2023

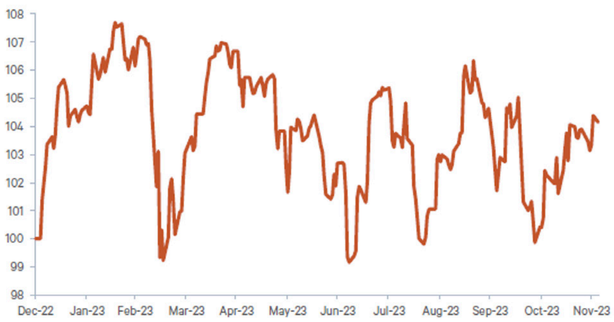
In the fourth quarter, the fund returned 9.4%, against 3.2% for its benchmark the FTSE All Share and 4.5% for its peers in the IA UK All Companies sector.

Looking at 2023 as a whole shows how impactful the final few months of the year were: our fund rose 9.6% over the year, versus 7.9% for the FTSE All Share and 7.4% for our peers, putting us in the first quartile. The fund has now beaten its benchmark in four out of the last five years, though the marked underperformance we suffered in 2022 means the longer-term numbers look poor.

Last year was certainly a hard slog with investors constantly second-guessing whether a recession was on the brink of arriving, and then rallying when poor economic data suggested interest rates would need to be cut sooner rather than later. And the fourth quarter encapsulated the year's vacillations in spades: a large negative move in October, more than offset by a punchy Santa rally. We have US Federal Reserve (Fed) Chair Jay Powell to thank for this one though, as he hinted in mid-December that the next move in rates would be down.

In the UK, without the excitement of direct AI plays which fuelled the strength of US markets, 2023 was a case of rolling hills.

THE FTSE 350 RALLIED AND THEN NOSEDIVED FOR MUCH OF 2023



Source: Berenberg research, Eikon

Not an easy backdrop for our low-turnover, high-conviction approach to investing. We don't try to time the market: we believe our skill lies in picking long-term winners. As we hope you have come to expect from the team, we stuck to our guns, while taking some profits in stocks whose valuations we felt had become extended (mainly US-facing multinational holdings) and adding to/initiating positions caught up in liquidity-led drawdowns. We reaped the rewards in the final few weeks of the year, giving us confidence that our fund is positioned correctly for when a broader swathe of investors regain their appetite for UK equities. Q4 performance was particularly pleasing given that sterling was so strong – usually this goes hand in hand with mid-caps underperforming.

Our large overweight in industrials was very beneficial, and is a reminder that our picks in this sector are not at the highly cyclical end, but quality growth companies. Our video game holdings were the biggest drag on performance thanks to softer growth rates (the Hollywood strike wasn't helpful) and worries over AI. While AI took with one hand, excitement about Microsoft's new AI tool Copilot (it sits alongside Office applications) drove software sales business **Bytes Technology** to be a top-three position. Mergers and acquisitions (M&A) activity was helpful too, with veterinary medicine developer Dechra and pharmaceutical outsourcer Ergomed both leaving the fund after these businesses were sold to private equity investors at chunky premiums to their current share prices. You can find out more about the stocks that drove performance in our recent In Conversation video here.

Curb your enthusiasm?

Markets had been waiting for a decisive central bank pivot for many months now. The speed of the rally that followed the Fed's announcement that rate cuts are coming was so ferocious that it's left investors thinking it's gone too far. There's a dichotomy in markets right now: equities rallied like a soft economic landing is nailed on, while bond markets are pricing in a degree of monetary easing which would be more consistent with a hard landing. Unsurprisingly, this meant markets started off this year reversing some of 2023's hard-won gains. In the UK at least, bond yields have moved up a little again and equities have been soft. But compared with US markets, it still looks like this country has front-loaded a lot of potential economic pain, and valuations are still pricing in the hardest of landings. UK equities trade on just over *half* the multiple of US equities. Expectations are low here, making it easier for markets to trade through any disappointing macroeconomic and company earnings data.

Performance review

	3 months	6 months	1 year	3 years	5 years
Rathbone UK Opportunities Fund	9.4%	6.6%	9.6%	-6.1%	25.5%
IA UK All Companies Sector	4.5%	5.4%	7.4%	14.5%	31.6%
FTSE All-Share Index	3.2%	5.2%	7.9%	28.1%	37.7%

	31 Dec 22-31 Dec 23	31 Dec 21-31 Dec 22	31 Dec 20-31 Dec 21	31 Dec 19-31 Dec 20	31 Dec 18-31 Dec 19
Rathbone UK Opportunities Fund	9.6%	-29.4%	21.4%	6.8%	25.0%
IA UK All Companies Sector	7.4%	-9.1%	17.3%	-6.0%	22.2%
FTSE All-Share Index	7.9%	0.3%	18.3%	-9.8%	19.2%

Source: FE Analytics; data to 31 December, I-class, mid price to mid price.

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

Going into 2024, our positioning remains focused on quality growth at a decent price. Balance sheet strength (i.e. low levels of debt relative to assets and income) and earnings upgrades look set to be the biggest drivers of outperformance. We think M&A will be in there too. We've trimmed our cyclical exposures for now – our overweight in mid/small-caps versus large-caps means our portfolio should rise faster than the UK market during rises and fall further when they fall (this is known as 'high beta'). The last few years have highlighted the importance of flexibility and balance – the only thing we know for sure is that 2024 will find new ways to challenge us all!

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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