RATHBONES

# RATHBONE GLOBAL OPPORTUNITIES FUND

QUARTERLY UPDATE MARCH 2024

**In the first quarter, your fund returned 10.9% versus a 7.8% average increase in the IA Global sector.**

A soft landing has become consensus now, but investors are agonising over 'higher for longer' interest rates in the face of robust American economic data and the fear that inflation will refuse to drop further. However, some of the best strategists we follow still point to a broad range of leading indicators that shows further disinflation and a recovery in PMI business surveys as we head into the summer. This tug of war will likely keep markets volatile over the months ahead, particularly given geopolitical risks (Middle East escalation) and more localised political tensions up as 64 countries – making up half the world's population – have elections this year.

The key drivers of our fund's performance during the first quarter were stocks that continued to post higher earnings and upgrades to forecast profits. We own high-end computer chip designer **Nvidia** and some of the other 'Magnificent Seven' stocks, which still consume a lot of air time due to their strong performance. Yet we're pleased that a broader spread of stocks has made a significant positive contribution to our performance during the quarter. These companies included Dutch semiconductor printer **ASML**, US aggregates supplier **Martin Marietta**, Swiss drug manufacturing outsourcer **Lonza**, and French luxury goods business **Hermes**. Very different types of businesses, but all showing strong fundamentals, protected market positions and delivering earnings upgrades which pushed each higher during the period. We remain invested in all of them, yet we significantly trimmed our holding in Nvidia several times during the quarter as it breached our 4% holding limit.

| **Q1 top contributors** | | |
|---|---|---|
| Nvidia | +84% | gaming, datacentre and AI |
| ASML | +29% | semiconductor equipment |
| Martin Marietta | +24% | aggregates |
| Lonza | +46% | drug manufacturing |
| Hermes | +23% | luxury goods |

| **Q1 bottom contributors** | | |
|---|---|---|
| Remy Cointreau | -22% | cognac |
| Apple | -9% | consumer electronics |
| Sika | -8% | building supplies |
| Cellnex | -10% | mobile towers |
| L'Oréal | -4% | beauty |

**Performance review**

| | **3 months** | **6 months** | **1 year** | **3 years** | **5 years** |
|---|---|---|---|---|---|
| **Rathbone Global Opportunities Fund** | 10.9% | 21.1% | 24.9% | 26.5% | 81.9% |
| IA Global Sector | 7.8% | 15.2% | 16.7% | 23.2% | 62.7% |

| | **31 Mar 23-31 Mar 24** | **31 Mar 22-31 Mar 23** | **31 Mar 21-31 Mar 22** | **31 Mar 20-31 Mar 21** | **31 Mar 19-31 Mar 20** |
|---|---|---|---|---|---|
| **Rathbone Global Opportunities Fund** | 24.9% | -6.8% | 8.7% | 39.2% | 3.3% |
| IA Global Sector | 16.7% | -2.7% | 8.4% | 40.6% | -6.0% |

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

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

The effect of our worst performers was mitigated, as position sizes in most were fairly small. Brandy maker **Remy Cointreau** suffered from excess inventory due to wholesalers and retailers not ordering as much to re-stock after the pandemic and weaker-than-expected global demand, particularly in China and the US. We had hoped that management had been more prudent with guidance, but continued weak demand, a threat by the Chinese government to sanction brandy makers in a seemingly tit-for-tat anti-dumping trade row with the EU, and signs that younger drinkers are switching to national brands and tequila, led us to sell this small position towards the end of the period.

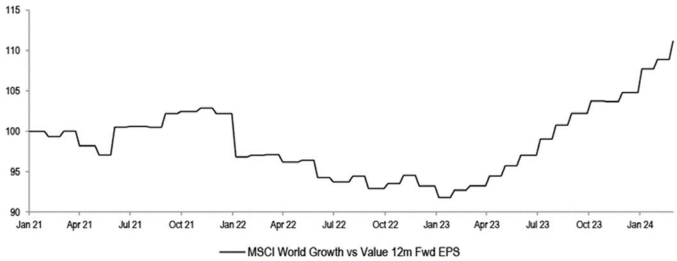
Our holding in consumer gadget colossus **Apple** similarly suffered from weak demand in the Chinese market for iPhones, yet we don't see evidence of structural loss of market share. Our weighting in Apple is small compared with most global indices so in relative terms the damage was fairly light. European mobile data tower operator **Cellnex** was hurt by modest earnings downgrades as it halted merger and acquisition plans to focus on paying down debt to achieve an investment grade credit rating and generate higher cashflow. The business often gets lumped in with bond proxies (listed businesses whose share prices tend to rise when yields fall and drop when prevailing interest rates rise) due to roughly 90% of its revenues coming from fixed-price contracts. Another reason for its 'high-duration' sensitivity to interest rates is its higher debt levels. We think it's an unfair label, as its fixed contracts are linked to inflation, so revenues should rise if rates stay higher for longer. And now that the business is reducing debt, this label may become even more unfounded.

Our position in **Sika**, the Swiss-based construction chemicals and materials company, suffered during the quarter from poor construction activity in Europe and China. Investors need reassurance that sales volumes have started to recover and that currency translation stops being a headwind (the Swiss franc has been strong against most major currencies in recent years). The Swiss National Bank's 25-basis-point cut to the benchmark interest rate has helped drive the currency lower so far this year, which is a step in the right direction.

Finally, our holding in French cosmetics company **L'Oréal** stumbled as pricing tailwinds which had helped sales growth now lapping difficult comparisons. L'Oréal's Chinese business, like so many, is facing lacklustre demand and other markets have temporarily decelerated too. Over the long term, L'Oréal should benefit from industry-leading research and development, innovation, brand marketing pedigree and ongoing premiumisation.

We don't expect any major changes to our portfolio over the coming months, as we have built for balance and a variety of economic scenarios. Our weatherproof bucket, at approximately 20% of the fund, has underperformed in the 'risk-on' rally but should provide resilience in any drawdowns. Markets remain obsessed with the timing and pace of future interest rate cuts, but usually it's better to travel than arrive at the first rate cut. We think the key driver of outperformance during this period of patience will continue to be earnings upside and forecast upgrades. We expect the outperformance of growth strategies to continue as investors prize superior growth when it's hard to find. You can see this in the chart below, which plots the change in forecast earnings per share (EPS) of the world's 'growth' companies relative to the EPS of their 'value' counterparts. After a setback in 2022, EPS forecast for growth businesses have steadily increased at a faster rate than for value in 2023.

## 'GROWTH' COMPANIES' PROFITS RISE FASTER THAN 'VALUE'




Source: MSCI and JPMorgan, data as of 22 March 2024

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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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