



RATHBONE MULTI-ASSET PORTFOLIOS

ENHANCED GROWTH FUND

Quarterly investment update
October to end December 2024

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HOT TOPICS

MARKETS HOT TOPICS (MACROECONOMIC)

This information reflects our general views and should not be taken as a recommendation or advice as to how a specific market is likely to perform.

COMING UP TRUMP

Donald Trump's electoral win triggered a surge in American stocks, bonds and the currency as investors bought into the prospect for lower taxes, lessened regulation and a pro-growth agenda. This moderated somewhat in the final days of the year, likely because of people cashing in profits after another year of 25% gains in US stocks, but also as inflation concerns rose to the fore once again and government bond yields rebounded sharply.

There's a risk that Trump's touted policies (big tariffs on trade, big tax cuts for households and businesses, and a clampdown on both legal and illegal immigration) will send inflation higher. However, we think people are putting too much weight on these areas and ignoring his ambitions on slashing government spending. Trump often talks big at the outset, only to negotiate a compromise at the end. To that end, some of the tariffs may be much smaller or not happen at all. Similarly, tax cuts may not be as large as some hope. But if he and "First Buddy" Elon Musk's Department of Government Efficiency manage to slash a significant amount of federal spending, the tax-cuts' net effect on inflation may be negligible.

We're particularly impressed with nomination of billionaire hedge fund CEO and one-time Democrat Scott Bessent as Treasury Secretary (the job currently held by former US Federal Reserve Chair Janet Yellen). He's eminently qualified for the top finance job and many investors see him as a restraining force for the administration, one that could smooth the sharp edges of other members. Bessent has spoken of a "3-3-3" strategy: halving the federal budget deficit to 3% of GDP by 2028, growing the economy by 3% a year through deregulation and privatisation, and increasing US oil production by 3 million barrels a day.

Hitting these targets could be a tough ask, but the strategy seems positive for the US economy: a focus on growth, tighter finances, less bureaucracy, more private enterprise and cheaper energy. We think US inflation is likely to remain in its current band: between 2% and 3%. Not quite low enough for the central bank to claim victory and not high enough to cause serious panic. Just constant low-level anxiety throughout the year. But that would leave room for the Fed to cut rates.

We think this sort of situation should allow a broadening of American stock market performance beyond the handful of massive technology companies at the top of the index. Solid economic growth, steadily falling rates and a reduction in regulation should boost smaller US companies as well.



The US "3-3-3" strategy
Government spending cut to 3% of GDP
GDP Growth of 3% a year
Increase US oil production by 3 million barrels a day.

BOND YIELDS

Right now, however, bond investors around the world are definitely rattled. After a short-lived and aggressive drop for most major government bond yields in November, a swift reversal sent prices lower and yields rocketing again. The concerns appear to centre on the spendthrift ways of most advanced nation governments, but particularly the US, which is the bellwether bond market. The rampant American economy, which continues to outdo forecasts, and stickier inflation of late, also haven't been good for bondholders' nerves.

The US and UK 10-year yields were 4.6% by the end of the year, up roughly a full percentage point from their recent lows. Even Germany, which shares none of its peers' fiscal imprudence, has suffered a substantial rise in its bond yields.

US 10-YEAR TREASURY YIELD SETS THE TREND FOR ALL



Source: FactSet; data to 10 January

The big question for 2025 is the same as it was in 2024: how much will central banks be able to cut interest rates in the face of strong economic growth in the US and stubborn inflation virtually everywhere? As 2025 dawns, the prevailing answer is just one quarter-percentage-point reduction by July – if that.

As Trump's inauguration has approached, hopes have steadily faded for cuts to the Fed's overnight interest rate. One thing to note is that this isn't a new thing: yields were very volatile for all of 2024 as expectations for rate cuts have ebbed and flowed. They surged higher in the first half of the year on concerns that the Fed's rate-cut plans would be upended by strong economic growth and rising inflation. They then sunk back significantly when the panic subsided. Sound familiar?

BRITISH EXCEPTIONALISM

The UK wasn't the only country to suffer a bond market sell-off in the past few months, but it was by far the hardest hit. Very long-dated 30-year government bonds jumped to heights not seen since the 1990s. The increased borrowing costs across all maturities may have vaporised the headroom between what the government expects to receive in taxes and how much it will spend. Yield spikes have caused angst about UK government finances several times over the past five years, only for the problem to melt away when panic and yields subsided.

If US central bank interest rates fall back, as most investors expect, then you would expect UK yields to recede with them. Let's hope the same happens this time as well. If not, greater borrowing costs may force the government to tighten policy to meet its fiscal rules. It's got until 26 March when the Office for Budget Responsibility gives its verdict on the rules – bond yields could easily move another half of a percentage point (in either direction!) between now and then.

Yet that's only one of Britain's pressing concerns: the other is a distinct lack of GDP growth. The economy has ebbed relentlessly since Labour took power, hitting 0% in the third quarter. We had been concerned about the increasing chance of a UK recession for some time and now it seems the chorus is growing broader. The major risk, as we see it, is stagnant economic growth and above target inflation and high unemployment. Some may call that stagflation. Inflation climbed back up to 2.6% in November as housing costs, utility bills and prices for package holidays, cinema tickets and pets all rose. The December figure, released after year-end, eased to 2.5%. Most helpful, however, was that it showed a big drop in services inflation – essentially anything that isn't a physical product. Persistently between 5% and 6%, the problem child is now closer to 4% than it is to 5%. If that trend continues it will help dampen those UK stagflation fears.

If inflation does remain above target despite an economic contraction, it would make it extremely difficult for the Bank of England to cut interest rates in support of the economy, because that would worsen inflation. It would also send government bond prices lower (so yields higher) because higher inflation would mean investors demanding a greater return to offset that reduction in the value of their coupons. This would make it even harder for the already cash-strapped government to boost the ailing economy too.

6%

The percentage of GDP that US government is spending more than it receives in taxes.

5.35%

The 30-year UK government bond yield is at its highest since July 1998.





PORTFOLIO ACTIVITY

Key purchases/additions

AstraZeneca (purchase)

KKR & Co (purchase)

Rightmove (purchase)

Unilever (purchase)

American Tower (addition)

Key sales/trims

Charles Schwab (sale)

ASML (reduce)

Shopify (trim)

Iceland Bondco 4.375% 05/15/2028 (sale)

Ocado Group 3.875% 10/08/2026 (sale)

Source: Rathbones

We added several new stocks over the quarter. The first was UK house listing business Rightmove. We had some cash to deploy after making some sales and felt that it was a good time to bring the company in off the bench. Gradually falling UK interest rates, steadily rising rents and the government wanting to unclog housebuilding should deliver more opportunities for the company that commands about 90% of the nation's listings. Rightmove makes money by charging a fee to list a property for sale or rent, as well as through subscriptions to digital tools that it sells to agents. That means an increase in the housing stock and turnover in properties (whether for sale or rent) should be good for the company's bottom line. As an example, new home developments accounted for about a fifth of sales and grew by 26% between 2022 and 2023. That at a time when the number of homes being completed *fell*.

Another new stock was American Tower. This company owns mobile network transmitters and leases them to telcos. The business is a little like a bond: it has relatively fixed returns (that are growing steadily) stretching far into the future, so lower interest rates make those returns more attractive. It also has quite a bit of debt to finance big upfront investments in land and equipment, so a reduction in financing costs can make a significant difference to its bottom line. Meanwhile, an increase in prevailing bond yields have the opposite effect: increasing financing costs and pushing down the value of future earnings, sending the share price lower. As yields rose in October, we took the chance to buy into the company. We expect yields to fall steadily from here, meanwhile the company offers some defensive profits that should help us if the US economy begins to fade.

We also bought UK pharmaceutical AstraZeneca. The share price was beaten down by fears that its sales in China could slow, in part impacted by allegations of corruption in its Chinese division, but we think the impact of this is overdone. China accounts for about 13% of Astra's sales; its biggest market is actually the US, where it makes and researches drugs in 17 sites across several states. Astra is a truly global operator, with 28 manufacturing sites in 16 countries, so it should also be sheltered from Trump's tariffs.

Another quality UK-listed global business that we added this quarter was Unilever. This business owns household brands that sell for a premium the world over. Well diversified in products, with ice cream, shampoo, cleaning products and food, it's also well diversified across the Americas, Europe and emerging markets. The business is partway through a push to streamline its product range, focusing its efforts to increase its profitability.

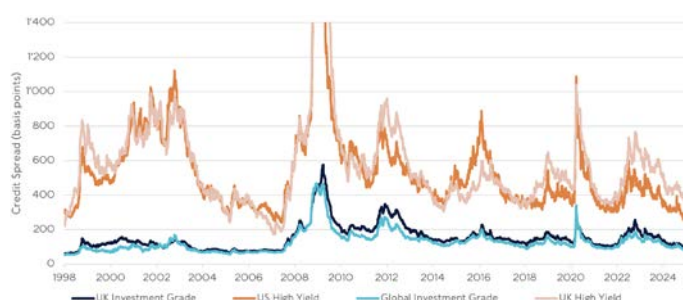
We got into private equity as well, although we decided it was better to buy the PE operator itself, rather than invest in one of their funds. Private equity funds are expensive! So where the opportunity exists to take a cut of those fees, along with investing alongside the fundholders, we thought it made sense. The company we chose was KKR & Co, which has a strong pedigree and is one of the largest listed PE firms. Private equity is another area that should benefit from a pro-business US administration and lower interest rates: it makes it easier for high-cashflow businesses to pull off lucrative leveraged buyouts and it increases the value of exits from successful start-ups. While best known for private equity, KKR actually has a much broader business, including insurance, infrastructure funding and capital markets work.

We sold US investment platform Charles Schwab as the business faced a number of challenges, including a change in management team, a retreat from its banking services that would impact its longer-term profitability, and ongoing pressure on its trading commissions. We used the cash to buy KKR.

In November, after Trump's election win, we used the market strength to take some profits from Canadian e-commerce platform Shopify, US high-end computer chip designer Nvidia and UK retailer Marks & Spencer.

Finally, we sold some of our corporate bonds. Optimism about the future and little concern that defaults may rise has left global corporate credit spreads at multi-decade lows. You can see from the chart that these spreads, or extra return above government bonds to compensate for the risk of default, are extremely low. Unlike stock prices, which theoretically can go as high as shareholders are willing to pay, bond prices have a ceiling. That's because there comes a point where you will be getting the same yield from a company as you do from a safe-haven nation. We're not at the ceiling yet, but we're very close, so we took the opportunity to sell our unrated grocery delivery business Ocado Group 3.875% 2026 and high yield frozen goods retailer Iceland Bondco 4.375% 2028 bonds.

CORPORATE BOND SPREADS ARE EXTREMELY LOW



Source: FactSet; data 1 Jan 1998 to 10 Jan 2024; US High Yield peaks at 2,147bps on 15 Dec 2008, UK HY peaks at 2,585 on 1 Apr 2009



SPOTLIGHT

IN THIS QUARTER, THE SPOTLIGHT IS ON OUR SHOPIFY AND UNILEVER HOLDINGS.



SHOPIFY

- Leading e-commerce enablement and infrastructure platform, providing an online cloud-based ecosystem for brands and retailers, with its software used for payment processing, website building and shipping
- Shopify focusses on serving small and medium-sized businesses, offering unique solutions which help reduce the barriers and costs to move online
- E-commerce is growing meaningfully, catalysed by the pandemic, with a large, fairly unpenetrated addressable market, and Shopify is a one-stop shop for businesses aiming to move online
- Strategic partnerships with companies such as Facebook increase repeat sales via subscription services
- Its product breadth, ease of use and scale are distinct competitive advantages that provide Shopify with a strong moat and will continue to fuel growth

UNILEVER

- Largest global producer of household and personal products such as laundry detergents and deodorant, offering well-known iconic brands such as Dove, Hellmann's, Persil, and Vaseline
- Unilever has a well-diversified product-mix as well as geographic exposure, which includes a growing presence in emerging markets
- It is in the early stages of implementing a multi-year turnaround to unlock the growth potential of its portfolio, with the recently appointed new CEO well positioned to drive this change, bringing extensive experience in the consumer goods industry and a fresh perspective
- The business has undergone a reorganization to simplify and refocus the portfolio, with the opportunity to boost growth through more effective brand management. One example of this is the decision to sell its Ice Cream segment
- The stock has a defensive element to it, alongside predictable cashflow generation and an attractive return on capital

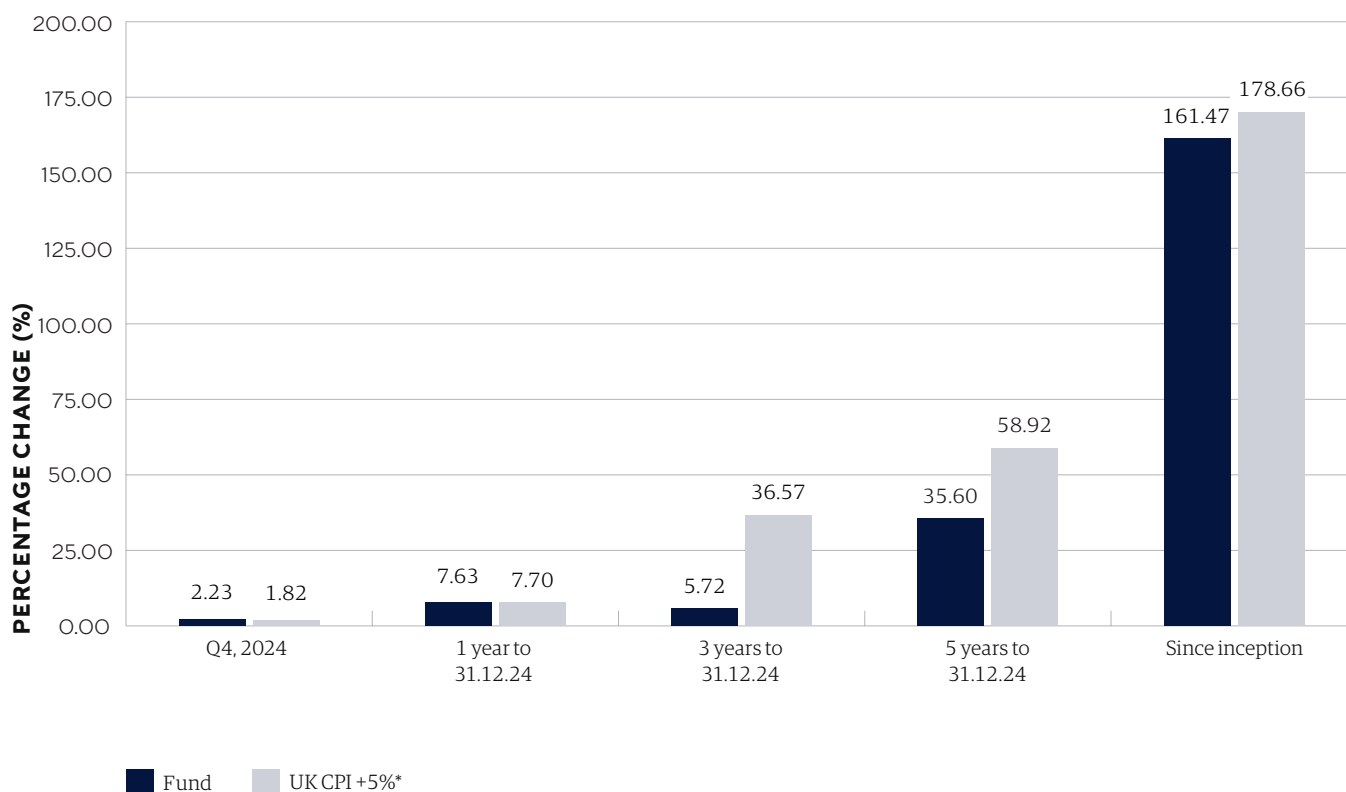
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FUND PERFORMANCE

RATHBONE ENHANCED GROWTH FUND — QUARTER 4 2024



*At 1 October 2015, the benchmark measure changed to CPI+5%.

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 Dec 2024	End Dec 2023	End Dec 2022	End Dec 2021	End Dec 2020
Fund	+7.63%	+12.30%	-12.53%	+15.86%	+10.70%
UK CPI +5%*	+7.70%	+9.14%	+16.19%	+10.40%	+5.40%
Annual calendar performance					
Calendar year	2024	2023	2022	2021	2020
Fund	+7.63%	+12.30%	-12.53%	+15.86%	+10.70%
UK CPI +5%*	+7.70%	+9.14%	+16.19%	+10.40%	+5.40%

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 (%)			Bottom performers (%)		
Holding	Performance	Contribution	Holding	Performance	Contribution
Shopify	+42.10	+0.53	Carl Zeiss Meditec	-34.84	-0.29
Charles Schwab	+32.23	+0.34	JP Morgan FTSE Accelerator (650%)	-26.29	-0.26
Salesforce	+30.97	+0.35	Advanced Drainage System	-21.07	-0.21
Morgan Stanley	+30.06	+0.35	Estée Lauder	-19.01	-0.22
Take-Two Interactive	+28.19	+0.13	Novonesis	-16.05	-0.19

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

A number of our companies reported strong results during quarter and rallied into the end of the year. These included e-commerce platform Shopify, American lender and investment bank Morgan Stanley, sales tool Salesforce, search giant Alphabet and e-commerce titan Amazon. It wasn't just American names either, with good performance coming from Japanese media and electronics creator Sony, computer chip manufacturer Taiwan Semiconductor Manufacturing Company, Singaporean bank DBS Group and London Stock Exchange.

Two key detractors from our performance were German lens maker Carl Zeiss and US-listed cosmetics company Estée Lauder. Investors were already very negative on these names due to slowing Chinese economic growth (about a quarter of both businesses' sales are made there). Tepid results and cautious forecasts for 2025 sales drove a further sell-off. We think these companies - along with other names in our portfolio which have exposure to China - should benefit from a stabilisation in Chinese markets. While this may not be imminent, we now feel valuations have overly discounted this weakness. It's interesting to note that mainland-listed Chinese stocks posted the third-highest return of any major stock market in 2024 (behind the US and Japan) after a huge rally in the fourth quarter. Perhaps suggesting that the locals are more optimistic.

Our Diversifiers did a useful job for us in the quarter. These are investments whose prices tend to move very differently to stock markets yet are less easily traded than government and very high-quality corporate bonds (what we call Liquidity assets). One of these Diversifiers is the Société Générale US Rates Volatility structured product, a contract with an investment bank that benefits from increased price movement in US government bond yields. This perfectly summed up the quarter: big moves in both directions (mostly up). This meant we made good returns on this investment.

ASSET ALLOCATION CHANGES

Asset allocation split	30.09.24	31.12.24	% Change	12 month change
Liquidity (10%-20%)	5.6%	0.9%	∨	-4.8%
Equity-type risk (70%-100%)	94.3%	99.1%	∧	4.9%
Diversifiers (0%-20%)	0.1%	0.0%	∨	-0.1%

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

Asset class split	30.09.24	31.12.24	% Change	12 month change
Equities	91.6%	96.0%	∧	4.4%
UK	11.3%	13.1%		1.7%
US	55.9%	59.5%		3.6%
Europe	12.5%	12.1%		-0.4%
Japan	4.1%	4.1%		-0.1%
Asia ex-Japan	4.9%	4.7%		-0.2%
Emerging Markets	0.0%	0.0%		0.0%
Global	2.7%	2.6%		-0.2%
Index-linked bonds	0.0%	0.0%	<>	0.0%
Conventional government bonds	0.0%	0.0%	<>	0.0%
Corporate bonds	1.2%	0.5%	∨	-0.7%
Emerging market debt	0.0%	0.0%	<>	0.0%
Private equity	1.5%	1.5%	<>	0.0%
Alternative investment strategies	0.1%	0.0%	∨	-0.1%
Property	0.0%	0.0%	<>	0.0%
Infrastructure	0.0%	0.0%	<>	0.0%
Commodities	0.0%	1.1%	∧	1.1%
Cash	5.6%	0.9%	∨	-4.8%





INVESTMENT OUTLOOK

THE US ECONOMY IS STEAMING AHEAD AND THIS SEEMS LIKELY TO CONTINUE INTO 2025, ALTHOUGH IT MAY START TO COOL AS THE YEAR WEARS ON.

The big question is whether inflation will remain low enough for the US central bank to cut its benchmark overnight interest rate by the half percentage point or so that investors want to see by the end of the year (which would take it to 4.0%).

As for everywhere else, the economic situation is far from rosy. This divergence in economic strength has already led to big shifts in currencies: a strong dollar versus virtually all other currencies. One outlier in 2024 was the pound, which actually held its own as investors became sceptical about the Bank of England's ability to cut rates as much as it suggested (see chart). But that strength unravelled quickly in the final quarter and continued in the early days of 2025, as sterling fell along with other big, advanced currencies. Will this dollar strength continue?

STERLING HELD ITS OWN AGAINST THE DOLLAR IN 2024, UNLIKE ITS PEERS

G-10 currencies against the US dollar



Source: FactSet; currencies' exchange rates against the US dollar, indexed to 100 at 31 Dec 2023, data to 10 Jan 2025

The dollar should remain strong if investors continue to assume that US interest rates will stay higher and fall more slowly than other major countries. That's because money tends to flow to places where the rate of return is highest for a given risk. At the moment, the US has a high risk-free rate and the strongest economy with the most opportunities for profits. That attracts cash from around the world, meaning people sell euros, pesos and pounds to buy dollars so they can get in on the action.

For the US, the big risk is that resurgent inflation and an economy that keeps growing at a pace that could be unsustainably fast prevents the Fed from cutting rates at all. Or, even worse, pushes the Fed to resume *increasing* rates. That would likely send the prices of bonds and stocks alike slumping – and not just in America – as investors decide that it's better to sell assets and keep their money in cash. But we are confident that inflation will remain in check without the Fed needing to step in with rate hikes.

If there are any of the commentaries you require further clarification on, then please contact your advisers or Rathbones Asset Management (RAM) at the contact details contained on the RAM website.

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